POSITIONED

CANFOR CORPORATION ANNUAL REPORT 2004

Canfor is a leading integrated forest products company based in Vancouver, British Columbia. The company is the largest producer of softwood lumber and one of the largest producers of northern softwood kraft pulp in Canada. Canfor also produces kraft paper, plywood, remanufactured lumber products, oriented strand board (OSB), hardboard paneling and a range of specialized wood products, including baled fibre and fibre mat at 33 facilities located in BC, Alberta and Quebec.

Canfor employs 10,290 people – 8,100 directly, with an additional 2,190 through affiliated companies and contractors.

Canfor has an annual production capability of approximately 5.2 billion board feet of lumber, 950 million square feet of plywood and OSB, 1.2 million tonnes of pulp, and 142,000 tonnes of kraft paper. Additionally, Canfor has approximately 14 million cubic metres of allowable annual cut under its forest tenures. Canfor (CFP) is listed on the Toronto Stock Exchange. The main operating company is Canadian Forest Products Ltd., from which the name Canfor is derived.

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vood products company of choice.

one VISION

DEAR FELLOW SHAREHOLDERS,

2004 was a milestone year where Canfor and Slocan came together, integrating every aspect of our operating, marketing, and corporate functions. Once all of our efforts were complete, we had created a company with over 10,000 employees, 22 sawmills, three panel mills, five pulp mills, two paper mills, and one specialty fibre mill.

> "The new Canfor differentiates itself from its competitors by having a very strong customer focus and commitment to quality that are next to none."

In addition, we have the privilege of managing approximately 14 million cubic metres of harvest in 3 provinces.

The new Canfor differentiates itself from its competitors by having a very strong customer focus and commitment to quality that are next to none. We create shareholder value through low-cost manufacturing facilities, product diversification and the production of high quality products.

Canfor is a significant force in the international forest products sector with efficient manufacturing assets coupled with a valuable fibre supply. Equally important to these mills and fibre assets are the employees working on the front lines. The dedicated individuals who harvest the fibre, operate the mills, move the products to market and administer the company needs are critical elements of our business. It is with this in mind that Canfor is creating an environment that promotes the development of its employees and recognizes the human contribution to our company's success. This is an essential ingredient to our future growth.

This sense of value extends from our employees to the communities where we live and work. We understand the social license that we have been given to operate and that this license has to be earned. We are endeavouring to build partnerships in our communities respecting their values and needs. Our industry is one of shared risk and success and it is recognized that we cannot do it alone.

We've not forgotten about the importance of safety at the workplace. With all of the challenges and activities in our day-to-day business, our safety statistics continue to improve year-over-year but we will not be satisfied until we have achieved an accident free workplace. We are also aware of our social and environmental responsibilities, which is why we are implementing a very deliberate and comprehensive certification strategy that reflects our longstanding corporate commitment to excellence in forest stewardship. We will be expanding Canfor's sustainable forest management certifications to all of our tenures providing the independent proof of our environmental performance to our customers and to our stakeholders.

In 2004, Canfor was able to capitalize on strong markets in all of our product areas. Our mills operated to capacity improving in efficiency and productivity measures. We firmly believe that Canfor is now positioned to succeed in the good markets and the bad.

Canfor and the Canadian lumber industry continue to be punished by unfair trade duties imposed by the United States Government. As of December 31, 2004 Canfor had on deposit over a half a billion dollars (US) with the United States Customs Department. Canfor has been working with both the provincial and federal levels of government to develop a coordinated strategy to resolve this dispute and it is hoped that our efforts will lead to a positive resolution. Ultimately, free trade is the desired result but Canfor is diligently developing strategies to move forward regardless of the outcome.

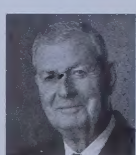
2004 was a busy but successful year for us at Canfor. The markets have reacted positively to the combination of Canfor and Slocan and the conservative financial direction that we have taken the company. Our prospects for growth are exciting. The world is changing and Canfor is responding to these changes in how we address our market, employee and community needs. Now that we've positioned the company as a premier forest products supplier to the world, we intend to continue to provide value to our shareholders and customers. We will let our actions speak for themselves.

We thank the dedicated people throughout Canfor and we thank our Board for its wise counsel and guidance. And we thank you the shareholders for your support of Canfor and look forward to continued growth and prosperity in the future.

Sincerely,

Jim Shepherd

PRESIDENT AND CHIEF EXECUTIVE OFFICER



Peter Bentley

CHAIRMAN

one OPERATION

SAWMILLS
Chetwynd - 15
Clear Lake - 26
Fort St. James - 3
Fort St. John - 9
Grande Prairie - 11
Hines Creek - 10
Houston - 2
Isle Pierre - 5
Mackenzie - 16
Plateau - 4
Polar - 17
Prince George - 19
Quesnel - 27
Radium - 30
Rustad - 25
Slocan - 31
Tackama - 7
Valemount - 28
Vavenby - 29

PANELS
PolarBoard OSB - 6
North Central Plywood - 24
Panel and Fibre - 39
Tackama Plywood - 8

REMANUFACTURING
Chilliwack (Uneeda) - 41
Kyahwood - 1
Canfor USA - 42
Clear Lake - 26
Grande Prairie - 12

PULP & PAPER
Intercontinental - 23
Northwood - 22
Prince George Pulp & Paper - 20
Taylor - 14
Howe Sound - 35

NURSERIES/SEED ORCHARDS
J.D. Little Forest Centre - 18
Grande Prairie - 13
Sunshine Coast - 34
Vernon Seed Orchard - 32

COASTAL LOGGING
Englewood - 33
Harrison - 40

OTHER
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Canfor Wood Products Marketing - 38
Canfor Pulp & Paper Marketing - 37
Administration Centre - 21

WESTERN CANADA

EUROPE

SALES OFFICES & AGENCIES

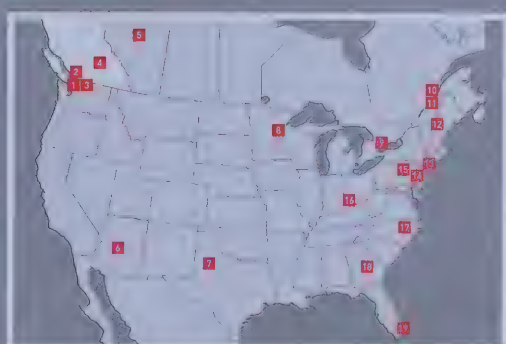
London, United Kingdom - 1
Brussels, Belgium - 2
Utrecht, The Netherlands - 3
Hamburg, Germany - 4
Gothenburg, Sweden - 5
Milan, Italy - 6

ASIA

SALES OFFICES & AGENCIES

Taipei, Taiwan - 1
Shanghai, China - 2
Seoul, South Korea - 3
Tokyo, Japan - 4

NORTH AMERICA



DISTRIBUTION CENTRES

Surrey, BC - 2
Kamloops, BC - 4
Edmonton, AB - 5
Toronto, ON - 9
Dallas, TX - 7
Island Pond, VT - 12
Minneapolis, MN - 8
Newnan, GA - 18
Phoenix, AZ - 6
Plains, PA - 15
Richmond, IN - 16
Sumas, WA - 3
Winston-Salem, NC - 17

SAWMILLS

Daaquam, PQ - 10

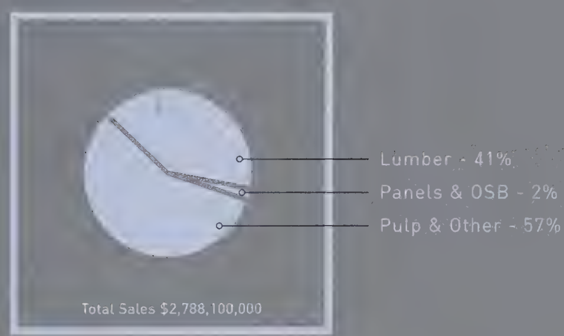
SALES OFFICES & AGENCIES

Quebec City, PQ - 11
Bellingham, WA - 1
Philadelphia, PA - 14
New York, NY - 13
Miami, FL - 19

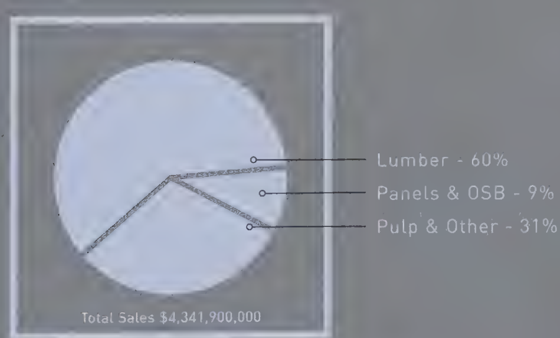
one GOAL

OUR VISION IS TO BE POSITIONED as the wood products supplier of choice for the home construction and repairs and renovation sector as well as a consistent supplier of premium NBSK pulp to global markets. To achieve this goal, we've committed to growing with our partners in the markets that generate superior returns so we continue to be their preferred supplier.

2000 Sales



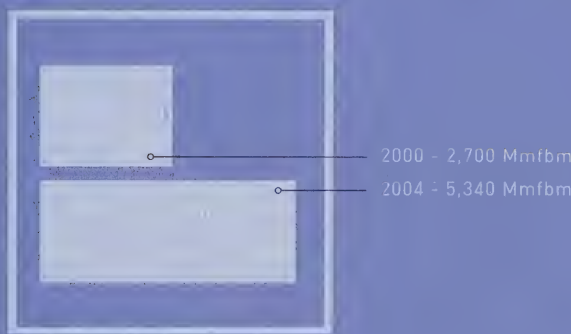
2004 Sales



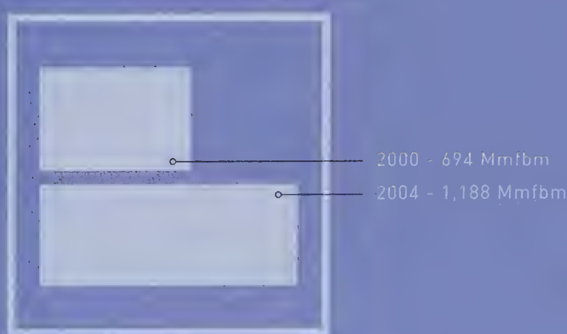
one FOCUS

CANFOR IS IN THE UNRIVALED position of being the preferred partner for our customers. By truly listening and understanding their needs, we've been able to grow with them by making sound strategic acquisitions and investments, focusing our product mix, investing in our supply chain, and improving the overall efficiency of our key distribution facilities.

Lumber Production Capacity Growth



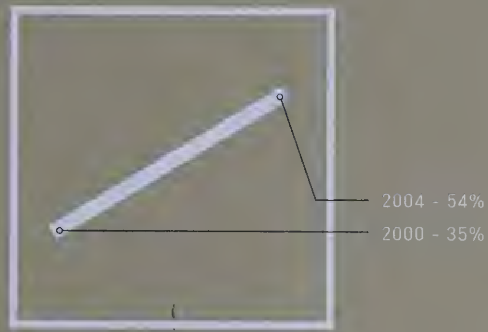
Vendor-Managed Inventory Volume Growth



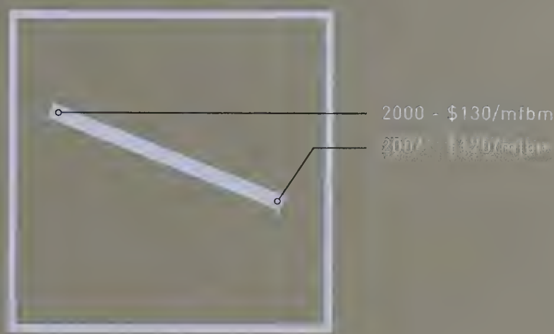
one MISSION

RECENT CAPITAL INVESTMENTS and refined strategies have positioned Canfor to increase operating margins. By increasing revenue through the growth of our value-added sales, coupled with cost reductions resulting from improved lumber recovery, increased uptime, and lower conversion costs, Canfor is creating more value from its resources.

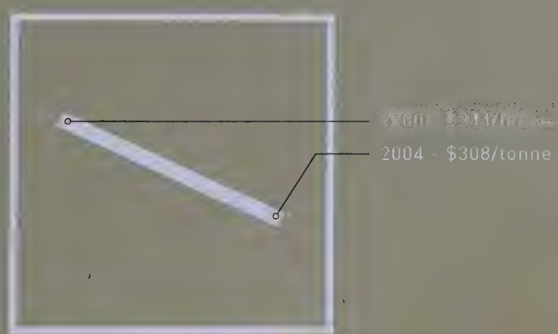
Value-Added Sales Growth



Decrease in Lumber Conversion Costs



Decrease in Pulp Conversion Costs



one RESPONSIBILITY

OUR POSITION AS AN INFLUENTIAL corporate citizen is something we take very seriously at Canfor. Through protecting our employees, giving back to the communities in which we work and live, and embracing sustainable forest practices, we believe we're building a strong foundation for a legacy that will last for generations to come.

CANFOR CORPORATION
2004 SUSTAINABILITY REPORT

I would like to introduce to you Canfor's Sustainability Report for 2004.

The recent trends for reporting on company activities in the community, the progress made in health and safety, and communicating a corporate environment report have increasingly taken the form of a Corporate Social Responsibility report or other such document. I think that this is a positive step as it places enhanced importance on the role we play as an employer in the communities where we operate, the work we do with our employees to make their workplace safer, and the way in which we sustainably manage our resources.

After surveying some of our employees, customers and stakeholders, we have taken our first step towards reporting in these areas in a more holistic fashion. What we found in our various discussions, is that the one common thread shared by our community activities, our health and safety programs, and our management of the environment is sustainability. How we conduct ourselves in these areas determines the sustainability of our social license to operate in a community, the sustainability of our workplace and employees, and the sustainability of our resources. We are accountable for our actions and relationships in every aspect of our business. As we go forward, we will use this report to communicate to you, our shareholder, customer or stakeholder, Canfor's performance in other areas related to our sustainable work practices.

I sincerely hope that you find this document informative and it leaves you with a better understanding of Canfor's sustainable practices in the community, at the workplace and in the forests.

Regards,

Jim Shepherd
President and Chief Executive Officer

WILDLIFE AND HABITAT MANAGEMENT

In 2004, Canfor's Coastal Operations completed and implemented a habitat conservation plan for Marbled Murrelet, a nationally listed Threatened wildlife species. This plan was built on 4 years of comprehensive population and habitat inventories. Over 21,000 ha of nesting habitat will be conserved within the Englewood Defined Forest Area.

In recognition of Canfor's efforts, the Ministry of Water, Land, and Air Protection and Wildlife Habitat Canada have recently acknowledged Canfor employees and their work on the wildlife and biodiversity planning efforts on the company's Coastal Operations.

At Canfor's Fort St. John Operations, stand-level management guidelines were developed in 2004 for species at risk and forest-dwelling wildlife, which are potentially negatively affected by forestry operations. These guidelines complement existing landscape-level strategies within the Sustainable Forest Management Plan to manage biological diversity.

VALUE-ADDED USES FOR WOOD RESIDUE

Canfor generates approximately 1.9 million tonnes of wood residue per year. The wood residue consists of bark, sawdust and shavings, primarily the byproducts of sawmill, plywood and OSB processes. We estimate that for 2005, with completion of the Canfor PG Pulp and Canadian Gas & Electric Grande Prairie cogeneration projects, approximately 65 per cent of our wood residuals will be converted to value-added products including: renewable electricity and heat, sawdust pulp, pellets, particleboard, and animal bedding.

COAST FOREST CONSERVATION INITIATIVE

Canfor has been a member of the Coast Forest Conservation Initiative (CFCI) since it began in 1999. CFCI is a collaboration among five British Columbia-based forest companies dedicated to the sustainable development and conservation of coastal forests. CFCI members have been in dialogue with environmental groups ForestEthics, Greenpeace, Rainforest Action Network and the Sierra Club of BC in a forum known as the Joint Solutions Project (JSP).

The CFCI and its environmental group collaborators in the JSP generated a workable package of solutions regarding conservation and forest management which served as the basis of consensus recommendations reached by the Central Coast Land and Resource Management Plan (CCLRMP) planning table in December 2003. The recommendations were forwarded to the provincial government, which is working with First Nations in the region to finalize a comprehensive land use plan, and related measures including protected areas and ecosystem based forest management. An agreement is expected to be reached during early 2005.

The Joint Solutions Project received the first annual Partnership Award for 2004 from ForestLeadership, an international organization focusing on improving sustainable forestry policies and practices. The Partnership Award recognized JSP's commendable teamwork among different organizations to further sustainable forestry.

KYOTO ACCORD COMMITMENT

Canfor is a member of a pulp and paper industry group, led by FPAC, that signed a Memorandum of Understanding with the Federal Government to reduce total greenhouse gas emissions emissions by an additional 1.4 Mt of CO_2. This landmark agreement was the first such commitment by any Canadian industrial sector. This came on top of a spectacular 12-year period where the Canadian Pulp and Paper industry had cut total GHG emissions by almost 28%, a period in which total production had increased by 30%.

CERTIFICATION

Canfor continues to be a leader in third-party sustainable forest management certification of its forestry operations.

During 2004 Canfor maintained existing certification to the CSA Sustainable Forest Management (SFM) standard on its Tree Farm Licences at Chetwynd, Prince George and on Vancouver Island, its Forest Licences in the Morice and Fort St. John Timber Supply Areas (TSA) and its Grande Prairie Forest Management Agreement. In addition, Sustainable Forestry Initiative® (SFISM) certification was maintained at the company's Forest Licence operations in the Prince George TSA.

Also during 2004, Canfor began work with local public advisory groups to develop sustainable forest management plans for certification to the CSA SFM at Fort Nelson, Vanderhoof and Quesnel forestry operations. The Fort Nelson operations underwent a third-party audit to the CSA SFM standard in December 2004 and received certification to the standard in February 2005. The Vanderhoof and Quesnel operations are expected to be certified during 2005.

ENVIRONMENTAL MANAGEMENT SYSTEMS

The acquisition of Slocan Forest Products Ltd. in April 2004 resulted in Canfor having two Environmental Management Systems (EMS) for forestry operations, each certified to the ISO 14001 EMS Standard. During 2004, Canfor staff began the work of integrating the two systems into one over-arching corporate EMS to guide environmental management at all forestry operations. This work also includes the integration of elements of sustainable forest management into an enhanced EMS that will be called a Forest Management System (FMS). The FMS will guide all forestry operations, including those that are yet to be certified to SFM standards. The integration work will be completed during 2005.

> "The one common thread shared by our community activities, our health and safety programs, and our management of the environment is sustainability."

COMPLIANCE WITH REGULATIONS

Canfor is committed to transparency in our environmental reporting and includes compliance reporting as part of this process. The following is an inventory of compliance for Canfor's forestry operations, including legacy Slocan operations from the date of purchase, April 1, 2004.

During 2004, a total of 74 non-compliance incidents occurred on company tenures. In all cases, Canfor promptly took necessary actions to mitigate any environmental consequences and correct conditions that may have led to the incident.

Of the non-compliances, ten were due to late reporting under the federal Environmental Emergencies Regulation related to propane storage at forestry operations facilities. All have now reported and three sites have completed follow-up work on required Emergency Response Plans.

Canfor forestry operations reported 15 spills to government agencies in 2004, all in British Columbia. Ten of the spills were the result of equipment failure, three followed motor vehicle accidents and two resulted from improper storage. All spills were minor in nature, were properly managed and, where applicable, resulted in improved storage procedures.

Canfor forestry operations were assessed administrative penalties by British Columbia government agencies totalling $2,200 for three incidents in 2004. Alberta government agencies assessed one administrative penalty to Canfor of $3,350 in 2004. All incidents were related to administrative procedures and did not result in any environmental consequences.

OBJECTIVES AND TARGETS FOR 2005

FORESTRY MANAGEMENT SYSTEM – We will complete the integration of the two legacy environmental management systems into a new Forest Management System and implement it at all forestry operations.

SUSTAINABLE FOREST MANAGEMENT CERTIFICATION – We will maintain existing SFM certifications, complete the certification of the Vanderhoof and Quesnel operations and complete planning for the certification of the remaining uncertified forestry operations.

AUDITS – We will provide audit training for forestry staff and conduct internal audits at nine forestry operations. We will conduct surveillance or re-registration audits to ISO, CSA and SFI standards at ten forestry operations.

COMPLIANCE REPORT

Canfor is committed to transparency in our environmental reporting and includes compliance reporting as part of this process. The following is an inventory of compliance for Canfor's manufacturing operations, including legacy Slocan operations from the date of purchase, April 1, 2004.

In 2004, Canfor had the following non-compliance situations (reported in accordance with government non-compliance reporting criteria):

ADMINISTRATIVE

Hines Creek Sawmill is under investigation for the late submission of monthly reports for the wood residue burner, which was not in operation.

Due dates for reporting under the federal Environmental Emergencies Regulation were missed at six Canfor manufacturing facilities. All have now reported and four sites have completed follow-up work on their Emergency Response Plans.

AIR – At sawmills, one beehive burner operated below approval temperature for 38 days, mainly on weekends, in 2004. One burner failed to meet the temperature requirement on five days and another on two days. One burner failed to meet smoke opacity limits when inspected by MWLAP on two occasions. One sawmill failed to establish a temperature/opacity correlation and failed to record burner operating temperatures (both are Permit requirements for assessing compliance) for a significant portion of 2004. One sawmill filed a late annual air emissions report for the year 2003.

At value-added facilities, one finger joining plant operated cyclones for 24 hours per day in excess of the Permit authorization of 16 hours per day. One panelboard plant reported sander dust emitted beyond plant boundaries to the Brunette River.

At pulpmill operations, particulate limits on a smelt dissolving tank stack failed to meet the Permit limit by 15 per cent.

EFFLUENT - At pulpmills, toxicity tests using Daphnia Magna failed on three occasions, one Rainbow Trout toxicity sample was not analyzed by the contract lab, one outfall sampler failed to collect samples on four days, one mill failed to meet the limit for total suspended solids, one ASB dyke was damaged by effluent flows.

At a panelboard plant, the Permit limit for phenol was exceeded on three occasions by amounts less than the analytical variation.

At a plywood plant, the annual report required by the Effluent Permit was submitted after the due date.

LANDFILL – At sawmills, one landfill was found to be out of compliance with Permit requirements for waste management and a required Risk Management Plan had not been submitted (under investigation), two sawmills had not submitted annual reports as required by their Permits.

One pulpmill discharged substantially more solid waste into its Landfill than allowed by the Permit. An application to amend the discharge limit has been under discussion with MWLAP since 2003.

At a plywood plant, the annual report required by the Landfill Permit was submitted after the due date.

SPILLS – Canfor manufacturing operations had nine reportable spills in 2004. All have been contained, cleaned up and preventive actions have been taken. Spills to ground included: three spills of hydraulic oil from mobile equipment; four spills of pulp process liquor; one spill of thermal oil; one spill of diesel fuel.

PERFORMANCE VERSUS OBJECTIVES IN 2004

AIR QUALITY

OBJECTIVE – The combined effect of air emissions from Canfor activities and operations on local airsheds and on regional and global environments is a high priority aspect managed at the Corporate level within Canfor. We will continue to actively participate on local airshed management committees and support local monitoring and research initiatives.

PERFORMANCE – Canfor staff have been active participants on local airshed committees in Prince George, Quesnel and Houston. Areas of focus in 2004 have included public education, management and funding for local monitoring networks and research to better understand how individual sources can impact local air quality.

WOOD RESIDUE UTILIZATION

OBJECTIVE – We will continue to actively pursue economically viable opportunities to increase utilization of our sawmill wood residues that will enable shutdown of our remaining Tier 1 burners.

PERFORMANCE – With the acquisition of Slocan Forest Products in April 2004, Canfor has four Tier 1 beehive burners at its Houston, Fort St. John, Polar and Valemount Sawmills. Canfor also sends surplus residue from its Quesnel sawmill to the Quesnel Waste Disposal Corp. Tier 1 burner in Quesnel. The remaining Tier 1 burners in B.C. have regulated phase out dates of December 31, 2007. For its Houston sawmill, Canfor has been conducting feasibility studies on a pellet plant option; for Fort St. John sawmill, a bark-fired energy system, further value added uses for whitewood, and cogeneration are under consideration; the Polar sawmill burner will be shut in 2005 with surplus wood residue going to the PG Pulp cogeneration facility currently under construction in Prince George; for Valemount a bark-fired energy system and value-added uses for whitewood are being considered; and for Quesnel, a bark-fired energy system to supply heat for the lumber dry kilns.

WOOD PRODUCTS EMS

OBJECTIVE – We will make further improvements to the Wood Products EMS including updating environmental aspects and EMS training for individuals with key environmental responsibilities.

PERFORMANCE – Most legacy Canfor operations have updated their environmental aspects in 2004, and are implementing environmental training plans based on training needs assessments conducted for significant environmental aspects. EMS training was provided to Wood Products environmental coordinators in 2004.

PULPMILL EMS

OBJECTIVE – We will reassess the significance of all remaining environmental aspects at the three pulpmills in Prince George. In order to ensure environmental resources are most appropriately allocated, the mill aspect registries will be consolidated. Action plans will be developed for the most significant risks identified across the tri-mill complex.

PERFORMANCE – A thorough review was conducted of all environmental aspects of the three mills in Prince George. A comprehensive ranking system was applied by representatives of all mills in order to arrive at single registry which now provides the basis for environmental objectives and targets across the tri-mill complex.

AUDITS

OBJECTIVE – We will carry out refresher environmental audit training for internal auditors and conduct corporate environmental audits of one pulp mill, four sawmill operations, one panel board plant and one plywood plant.

PERFORMANCE – Audit training was conducted for 21 previously trained and new auditors in 2004. Audits were conducted as planned with the exception of the audit at the Fort St. James Sawmill which was in the process of being sold and with the addition of the Taylor Pulpmill which was acquired with the acquisition of Slocan in April.

OBJECTIVES AND TARGETS FOR 2005

The following are corporate level environmental objectives and targets for 2005.

AIR QUALITY

- As a result of the Prince George Pulpmill 48MW Power Project, particulate matter and total reduced sulphur emissions will be reduced with the upgrade to environmental controls at the smelt-dissolving stack and with the conversion of the recovery boiler to a low odor-emitting boiler. Two beehive burners in nearby communities will also be shut down as a result of this project.

(EMS) FOR WOOD PRODUCTS

- Hold a one day training session in May for Environmental Coordinators that do not have previous EMS experience
- Begin development of basic elements of EMS at new Canfor Wood Products operations including developing site-specific environmental aspects, environmental objectives and targets and programs, and conducting management reviews.

(EMS) FOR TMP MILL

We will begin development of basic elements of an EMS of Taylor pulpmills, including:

- Developing an aspect registry
- Setting Objectives and Targets
- Developing environmental programs

THERMAL OIL SYSTEMS – We will work with the B.C. Council of Forest Industries toward the development of an approved training program for operators of thermal oil systems.

WOOD RESIDUE MANAGEMENT – We will continue to develop economically viable solutions to meet Tier 1 burner phase out requirements and create value from our wood residue.

AUDITS – We will conduct corporate environmental audits of three pulp mills, six sawmill operations, one OSB plant, one plywood plant and a remanufacturing plant.

At Canfor, "Safety Comes First at Canfor" is not just a slogan but an integral part of our corporate culture. With over 10,000 employees our first measure of success is the health and safety of our people. As part of our commitment to safety, Canfor undertakes an internal safety audit of its operations to determine the winner of the President's Safety Award. The audits are conducted by Canfor employees and are based on strict safety criteria. With the addition of legacy Slocan operations this year's President's Safety Award was awarded to the top operations in our East, West and Central regions in recognition of their excellent safety performance. This year's President Safety Award went to Grande Prairie in the East Region; Plateau in the West Region; and Intercontinental Pulp in the Central Region. The winners of the Woodlands Safety Awards were Alberta in the East and Vanderhoof in the West.

Canfor's overall Lost-Time Accident frequency rate continues to improve. Several lost-time accident free milestones were achieved during the year:

- CRDC - 13 years
- Grande Prairie - 1 year
- JD Little Forest Centre - 6 years
- PG Wood - 10 years
- Tackama Lumber - 1 year
- Taylor Pulp - 2 years

Overall, Canfor operations reduced their MIR from 6.21 in 2003 to 4.97 in 2004. Canfor's overall lost time frequency rate was also lowered from 1.67 in 2003 to 1.48 in 2004.

As a leading integrated forest products company how we compare within the industry is extremely important to us. Based on the 2004 BC Forest Industry Advisory Service (FIAS) reports, Canfor's Interior sawmills ranked first out of six in the Interior Lumber Sector in the Lost Time Frequency and Medical Incident Rates. Englewood Logging Operation ranked second out of four in the Coast Forest Sector in terms of Lost Time Frequency Rate and third in Medical Incident Rate. Furthermore, within its comparative group of five companies in the Panels/Plywood sector, Canfor ranked third in terms of Lost Time Frequency Rate and second in Medical Incident Rate (MIR).

Among BC's 11 primary pulp mills Canfor's four pulp and paper operations ranked as follows: Taylor Pulp first, PG Pulp second, Intercon third, and Northwood fourth in Lost Time Frequency Rate, and Northwood first, PG Pulp second, Intercon third and Taylor Pulp fifth in Medical Incident Rate.

Canfor has committed to developing a three-year health and safety strategy designed to prevent medical incidents from occurring and improving on our positive trend in this area.

OUR ROOTS ARE IN THIS COMMUNITY

"Our Roots Are In This Community" is more than just a slogan. Canfor values our people, our families and we value the communities in which we operate. That is why we're committed to providing strong, locally focused support in all the communities that Canfor calls home.

Canfor is building a new future as a new company, which means incorporating best practices in everything that we do. In working with both Canfor and Slocan's commitment to community enhancement, Canfor has taken the best from both companies and created an advanced community investment program. Through our regional employee donations committees, we have built partnerships with local organizations to make tangible contributions to our community's economic development.

As part of our long-term commitment to our operating regions, we have made significant investments in the key areas of youth and education, community enhancement, forestry and environment, amateur sports and health and wellness. In 2004, Canfor contributed to 350 charitable organizations and initiatives in our operating communities. Canfor also offers numerous scholarship and bursaries to make learning more accessible to students in our operating regions.

TAKING AN ACTIVE ROLE IN COMMUNITY DEVELOPMENT

As one of the largest employers in northern British Columbia, Canfor has a vested interest in ensuring our northern communities are healthy and have access to medical care close to home. Recognizing the need to encourage more doctors to practice in the north, Canfor is pleased to highlight our latest community partnership with the University of Northern British Columbia (UNBC) and its Medical Trust Program. The Northern Medical Program provides opportunities for individuals in Chetwynd, Fort Nelson, Fort St. James, Fort St. John, Houston, Mackenzie, Quesnel, Prince George, Smithers, Taylor, Valemount and Vanderhoof to train as doctors for the north.

PROVIDING NEW OPPORTUNITIES IN PARTNERSHIP WITH THE UNITED WAY

Recognizing that families across the nation are facing tougher challenges than ever before, Canfor and the United Way are working together to address the needs of children, youth and families. In 2004, Canfor and its employees in our British Columbia and Alberta operating regions donated to the United Way through generous employee and matching corporate donations.

With the merger of Slocan and Canfor complete, Canfor is moving to enhance our commitment to our community. Please visit www.canfor.com to find out more about Canfor's sponsorship programs.

SPONSORSHIP AND COMMUNITY INVOLVEMENT

In 2004, Canfor proudly provided financial support to many diverse community groups, events and initiatives in our operating regions. Below are some of the organizations we supported:

- Arts Umbrella
- Alberta Children's Hospital Foundation
- BC Children's Hospital Foundation
- BCIT Foundation
- Blue Lake Forest Education Society
- Canadian Institute For Advanced Research
- Canadian Northern Children's Festival
- Canadian Women in Timber
- Chetwynd RCMP Victim Services Program
- CIBC Run For The Cure - Prince George
- College of New Caledonia
- Cypress Ski Club
- District of Fort St. James
- Ducks Unlimited
- Fort Nelson RCMP
- Fort St. James Chamber of Commerce
- Fort St. John High On Ice Winter Carnival
- Fraser-Fort George Regional Museum
- Grande Prairie & District United Way
- Grande Prairie Regional College
- Greater Vancouver Food Bank Society
- Green Thumb Theatre for Young People
- Houston Figure Skating Club
- Houston Volunteer Firefighters Association
- KindActs Network Association of BC
- Kootenay Wildlife Federation
- North Peace Gymnastics Association
- Northern Alberta Institute of Technology
- Northern Lights College
- Prince George Girls Soccer Team
- Prince George Community Foundation
- Prince George Public Library
- Queen Elizabeth Theatre
- Quesnel Festival of Performing Arts
- Real Basketball Ltd. Vancouver
- Prince George Crimestoppers Association
- Spirit of the North Healthcare Foundation
- The Salvation Army - BC North & Yukon
- United Way of the Lower Mainland
- United Way of Prince George
- University of British Columbia
- University of Northern British Columbia
- Vancouver Symphony Orchestra
- Vanderhoof Public Library

one BOTTOM LINE

OUR STRONG MARKET POSITION is the result of strategic investments, a commitment to operational improvements, and a culture that anticipates our customers' needs. By focusing on growing our company and generating superior returns for our shareholders coupled with a conservative financial strategy, we've been successful at improving both profitability and financial stability.

The Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted Canfor's performance during 2004 relative to 2003. Factors that could impact future operations are also discussed. These factors may be influenced by known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. In addition to the risks and uncertainties discussed at the end of this MD&A, factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; foreign exchange rates; changes in law and public policy; the outcome of trade disputes; and opportunities available to or pursued by Canfor.

The financial data contained within this report has been prepared in accordance with Canadian generally accepted accounting principles. Throughout this discussion, reference is also made to EBITDA (calculated as operating income before amortization), which Canfor considers to be a key indicator for identifying trends in the performance of each operating segment and of the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to net income or cash flows as determined in accordance with Canadian generally accepted accounting principles. As there is no standardized method of calculating EBITDA, the Company's use of the term may not be directly comparable with similarly titled measures used by other companies.

The information in this report is as at February 8, 2005.

All financial references are in millions of Canadian dollars unless otherwise noted.

In this MD&A, Canfor Corporation and its subsidiaries are referred to collectively as "Canfor" or "the Company" unless the context otherwise requires.

OVERVIEW OF 2004

A YEAR OF GROWTH AND STRONG MARKETS

After three exceptionally difficult years of weak markets, compounded by the punishing softwood lumber duties imposed by the US and a Canadian dollar that rose at an unprecedented pace, 2004 finally saw a turnaround in market conditions for our core products. With the acquisition of Slocan Forest Products Ltd. (Slocan) on April 1, 2004, Canfor became the largest spruce/pine/fir producer in the world, with the second largest lumber capacity in North America. The increased production capacity and product diversification, along with the operational improvements made in the prior year, allowed the Company to capitalize on the strong lumber, panel and pulp markets and achieve record earnings of $421 million in 2004.

The focus in 2004 was centered on the merging of the two large organizations, and this was achieved with great success. Best practices of both companies were implemented, including the integration of the former Slocan operations into Canfor's marketing programs and establishing operating behaviour to maximize margin returns for all of our products. Annual synergies of $85 million from the acquisition have been identified, and these will be fully implemented by the second quarter of 2005.

The Company is well-positioned moving forward into 2005, with both the production capability and product diversification necessary to succeed and grow in the highly competitive global forest products marketplace.

2004 HIGHLIGHTS

- Achieved record sales, earnings and cash flow from operations.
- Completed acquisition of Slocan on April 1, which has increased annual lumber capacity by 1.9 billion board feet, plywood by 265 million square feet (3/8" basis), oriented strand board (OSB) by 510 million square feet (3/8" basis) and bleached chemi-thermo mechanical pulp by 220,000 ADMts.
- Converted $155 million of convertible debentures on November 15 by issuing 11,742,424 common shares to the debenture holders. At the same time, the Company announced that it had commenced a normal course issuer bid to purchase for cancellation up to 5%, or 6,578,868, of its common shares over a period of one year.
- Significantly improved the Company's financial position and access to capital markets.
- Began construction of a $226 million OSB facility in Fort St John, British Columbia, in partnership with Louisiana Pacific Canada Ltd. The mill will have a rated capacity of 820 million square feet (3/8" basis), of which Canfor's share is 50%.

SLOCAN FOREST PRODUCTS LTD.

On April 1, 2004, Canfor and Slocan completed the combination of their businesses pursuant to a plan of arrangement that was approved by Slocan's shareholders on March 25, 2004. Under the arrangement, Canfor acquired all of the issued and outstanding shares of Slocan in exchange for the issuance to Slocan shareholders of 1.3147 Canfor shares for each Slocan share held by them, representing up to 49,333,581 Canfor shares. Slocan was amalgamated with Canfor's principal operating subsidiary, Canadian Forest Products Ltd., on April 1, 2004.

SUMMARY OF SLOCAN OPERATIONS ACQUIRED:

LUMBER – 1.9 billion board feet

- 10 sawmills located in British Columbia (Vanderhoof, Fort Nelson, 2 mills in Quesnel, Valemount, Vavenby, Radium, Slocan and 2 mills in Mackenzie)
- a remanufacturing facility located in Chilliwack, British Columbia

PANELS – 775 million square feet (3/8" basis)

- a plywood mill and an OSB plant located in Fort Nelson, British Columbia

PULP – 220,000 ADMts

- a BCTMP (bleached chemi-thermo mechanical pulp) mill in Taylor, British Columbia

CANFOR'S BUSINESS

Canfor is a leading Canadian integrated forest products company based in Vancouver, British Columbia. The Company has extensive woodlands operations and lumber manufacturing facilities in British Columbia, Alberta and Quebec and a lumber remanufacturing plant in Washington State. Canfor is a major producer and supplier of northern bleached softwood kraft (NBSK) pulp and specialty kraft paper for markets around the world and of plywood, oriented strand board (OSB) and other panel products for markets in North America.

TENURES

- 14 million cubic metres of allowable annual cut under forest tenures[a]
- ISO14001 certified
- CSA/SFI certified or in process

LUMBER

- Primary lumber capacity of approximately 5.2 billion board feet
- 22 sawmills in BC, Alberta and Quebec

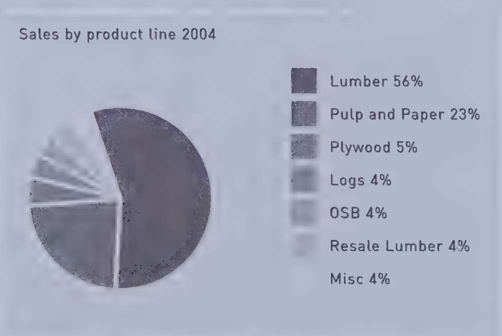
(a) Prior to the take-back of 20% of Canfor's allowable annual cut in British Columbia under the Forestry Revitalization Plan. See Risks and Uncertainties – Provincial Forest Policy Reform, below.

PANELS

- OSB capacity of 510 million square feet (Msf) 3/8" basis (increasing to 650 Msf by the second quarter of 2005)
- Plywood capacity of 440 Msf 3/8" basis
- OSB joint venture will add a further 820 Msf in late 2005 (Canfor's share is 50%)
- Hardboard and panelboard products

PULP

- Pulp capacity of 1.2 million tonnes (1.0 mt NBSK and 0.2 mt of BCTMP)
- Kraft paper capacity of 142,000 tonnes
- 4 pulp machines and 1 paper machine



Canfor's total sales increased by 63% in 2004, to $4.3 billion, as a result of the additional volume from the Slocan operations and the strength of markets for our core products.

BUSINESS STRATEGY

Canfor's overall business strategy is to be an industry leader in profit performance, which will be accomplished through:

- its motivated, energized employees,
- achieving and maintaining a low cost structure in all business segments,
- maximizing high-margin products and obtaining value from fibre,
- supply chain excellence,
- targeting customers to grow with in long-term partnerships,
- conservative financial management, and
- its ability to take advantage of growth opportunities.

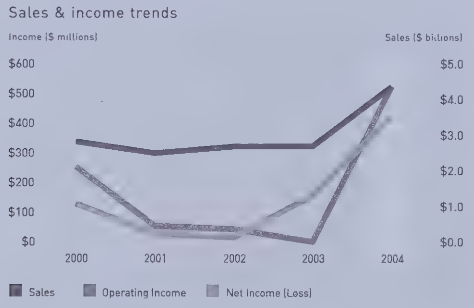
SELECTED ANNUAL INFORMATION [1]

(millions of dollars, except volumes and per share amounts)	2004	2003	2002
Sales volume – major products [2]			
Lumber (Canfor-produced) – millions of board feet	4,627.8	2,942.0	2,817.3
Plywood – millions of square feet, 3/8" basis	343.6	172.3	162.0
Oriented strand board – millions of square feet, 3/8" basis	379.6	-	-
Pulp – thousands of metric tonnes	1,114.2	999.2	993.5
Specialty Kraft Paper – thousands of metric tonnes	139.8	121.4	108.9
Coastal Logs – thousands of cubic metres	1,148.3	1,237.0	1,228.9
Sales by segment			
Lumber	$ 2,881.1	$ 1,566.9	$ 1,643.9
Panels	373.4	122.8	58.2
Pulp and Paper	981.7	853.4	825.6
Coastal Operations	105.7	119.5	125.0
Total sales	$ 4,341.9	$ 2,662.6	$ 2,652.7
Operating income (loss)			
Lumber	$ 411.6	$ (10.0)	$ 62.9
Panels	121.0	5.3	7.9
Pulp and Paper	45.1	25.7	(2.4)
Coastal Operations	(2.2)	1.4	5.7
Corporate and Other	(54.0)	(25.2)	(34.1)
Total operating income (loss)	521.5	(2.8)	40.0
Non-operating income (expense)			
Equity income (loss) of affiliated companies	11.3	(0.4)	5.0
Net interest expense	(50.4)	(50.5)	(59.2)
Foreign exchange gain on long-term debt [3]	48.7	110.9	-
Other income and unusual items	(3.8)	24.9	9.0
Total non-operating income (expense)	5.8	84.9	(45.2)
Income (loss) from continuing operations before income taxes	527.3	82.1	(5.2)
Income tax recovery (expense)	(106.4)	3.7	7.1
Income from continuing operations	420.9	85.8	1.9
Income from discontinued operations, net of taxes [4]	-	67.5	9.6
Net income	$ 420.9	$ 153.3	$ 11.5
Total assets	$ 4,028.1	$ 2,447.3	$ 2,328.0
Total long-term financial liabilities	$ 660.5	$ 478.0	$ 643.4
Income (loss) from continuing operations per common share			
Basic	$ 3.45	$ 0.98	$ (0.05)
Diluted	$ 3.22	$ 0.92	$ (0.05)
Net income per common share			
Basic	$ 3.45	$ 1.81	$ 0.07
Diluted	$ 3.22	$ 1.65	$ 0.07
Cash dividends declared	$ -	$ 0.13	$ 0.26

1 2004 balances reflect the operating results of the former Slocan operations from April 1, 2004. The 2003 balances reflect the operating results of Daaquam Lumber Inc. and Produits Forestiers Anticosti Inc. from May 27, 2003.
2 Sales volumes of Canfor-produced product only.
3 Effective January 1, 2003, Canfor terminated the designated hedging relationship between its US dollar denominated long-term debt and its US dollar revenue streams. Unrealized exchange gains or losses on debt after January 1, 2003 are recognized in income each period.
4 Reflects the results of Canfor's BC Chemicals division until August 29, 2003, which was previously included in the Pulp and Paper segment. The division was sold in 2003, and a gain on disposal of $60.2 million after tax was realized.
5 Certain prior year figures have been reclassified to conform with the current year's presentation.

2004 COMPARED TO 2003

The major factors impacting operating earnings in 2004 were the higher shipment volumes resulting from the integration of the former Slocan operations and strong markets for our major product lines. Average prices for all of our major products were significantly higher than in 2003, with lumber increasing by 43%, plywood by 16%, and pulp by 18%. Average OSB prices were also 41% higher in 2004 than in 2003. However, the Canadian dollar continued to strengthen against the US dollar in 2004, averaging nearly 8% stronger in 2004 than in 2003, which offset some of the pricing gains. Restructuring costs of $36.5 million (before tax) were incurred in 2004 as a result of the integration of the two companies. Included in this amount are $18.6 million of severance costs, $10.7 million of mill closure costs and $7.2 million of asset write downs and lease costs.

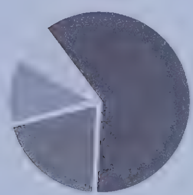


Other significant factors affecting the comparability of 2004 and 2003 are noted below:

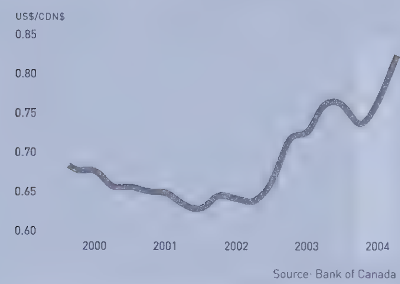
(millions of dollars, after tax)	2004	2003
Operating Income		
Restructuring costs	$ (28.8)	$ -
Gains from US dollar forward contract hedging program	1.4	24.6
Adjustment to countervailing and anti-dumping duties expensed in prior years	12.6	20.4
	$ (14.8)	$ 45.0
Non-Operating / Discontinued Operations		
Unrealized foreign exchange gain on US dollar long-term debt	50.7	96.0
Loss on repayment of US dollar long-term debt	(2.0)	(1.2)
Asset write-downs / gain on sale of property	(3.2)	19.5
Gain on sale of discontinued operation	-	60.2
Total favourable impact on net income	$ 30.7	$ 219.5
Exchange Rate and Price Factors:		
Average value of the Canadian dollar against the US dollar	$ 0.7683	$ 0.7138
Year-end closing value of the Canadian dollar against the US dollar	$ 0.8308	$ 0.7738
Average lumber price in US$ (2"x 4" Random Lengths #2 & Better)	$ 395	$ 277
Average lumber price expressed in Canadian dollars*	$ 514	$ 387
Average pulp price to northern Europe, in US$	$ 624	$ 527
Average pulp price expressed in Canadian dollars*	$ 812	$ 738

* at the average value of the Canadian dollar for the year, as noted above

Sales by market 2004



US/CDN$ Average annual exchange rate



SELECTED QUARTERLY INFORMATION

	2004				2003			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Sales and Income (millions of dollars)								
Sales	$ 1,149.9	$ 1,228.9	$ 1,277.5	$ 685.6	$ 656.4	$ 685.0	$ 639.4	$ 681.8
Operating income (loss)	$ 17.3	$ 216.6	$ 225.2	$ 62.4	$ (0.3)	$ 41.9	$ (47.5)	$ 3.1
Net income (loss) from continuing operations	$ 43.7	$ 201.6	$ 143.6	$ 32.0	$ 34.6	$ 17.8	$ (3.7)	$ 37.1
Net income (loss)	$ 43.7	$ 201.6	$ 143.6	$ 32.0	$ 34.1	$ 80.1	$ (1.1)	$ 40.2
Per common share (dollars)								
Net income (loss) from continuing operations								
Basic	$ 0.31	$ 1.52	$ 1.08	$ 0.37	$ 0.41	$ 0.20	$ (0.06)	$ 0.44
Diluted	$ 0.30	$ 1.40	$ 1.00	$ 0.34	$ 0.37	$ 0.19	$ (0.06)	$ 0.40
Net income (loss)								
Basic	$ 0.31	$ 1.52	$ 1.08	$ 0.37	$ 0.40	$ 0.97	$ (0.03)	$ 0.48
Diluted	$ 0.30	$ 1.40	$ 1.00	$ 0.34	$ 0.37	$ 0.86	$ (0.03)	$ 0.43
Statistics								
Lumber shipments (Mmfbm)	1,445	1,287	1,408	789	780	823	845	790
Pulp shipments (000 mt)	313	275	285	242	261	244	220	274
Plywood shipments (000 Msf 3/8")	96	93	109	45	36	48	48	40
OSB shipments (000 Msf 3/8")	127	121	133	-	-	-	-	-
Average exchange rate (Cdn$/US$)	$ 0.819	$ 0.765	$ 0.736	$ 0.759	$ 0.760	$ 0.725	$ 0.715	$ 0.662
Average 2x4 #2&Btr lumber price (US$)	$ 338	$ 440	$ 437	$ 370	$ 298	$ 316	$ 246	$ 245
Average NBSK pulp price to Northern Europe (US$)	$ 613	$ 640	$ 652	$ 590	$ 555	$ 520	$ 553	$ 480
Average plywood price – Toronto (Cdn$)	$ 444	$ 548	$ 592	$ 528	$ 542	$ 475	$ 361	$ 374
Average OSB price – North Central (US$)	$ 293	$ 353	$ 437	n/a	n/a	n/a	n/a	n/a

The main factors affecting the comparability of the results over the last eight quarters are the integration of the former Slocan operations as of April 1, 2004, the strengthening of the Canadian dollar against the US dollar beginning early in 2003, and changes in lumber, pulp, and plywood prices. One-time items that had a significant impact on quarterly net income include a $60.2 million gain on the sale of the BC Chemicals operation in the third quarter of 2003, a $19.5 million gain from the sale of property in the fourth quarter of 2003, and restructuring and mill closure provisions of $18.3 million, $0.3 million and $10.2 million in the second, third and fourth quarters of 2004 respectively.

The quarterly results are also impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills, plywood and OSB plants, and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber and panel products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

FOURTH QUARTER RESULTS

Operating income of $17.3 million and net income of $43.7 million were earned in the fourth quarter of 2004, compared with an operating loss of $0.3 million and net income of $34.1 million in the fourth quarter of 2003.

When comparing these two quarters, the main factors affecting the results include the increased sales volumes from the former Slocan operations, a 13% increase in lumber prices, and a 4% increase in pulp prices. These positive factors were partially offset by the impact of the 8% strengthening of the Canadian dollar in relation to the US dollar.

- The Lumber segment earned operating income of $18.2 million in the fourth quarter of 2004, compared to income of $1.9 million in the same period in 2003. The main reasons for the increase are a 95% increase in shipment volumes resulting from the inclusion of the former Slocan operations and strong market conditions. Major capital projects at three sawmills had been completed in the fourth quarter of 2003, but the full benefits of these upgrades were not realized until 2004. One-time items recorded in the fourth quarter of 2004 include an $11.3 million reduction of countervailing and anti-dumping duties expensed in prior periods, following the US's December 14th rate determination (discussed further in the Lumber section of this report), and a $10.2 million provision for mill closure costs.

- The Panels segment earned operating income of $19.9 million in the fourth quarter of 2004, or $19.4 million more than in the same period in 2003. Although plywood prices declined by 18% in the quarter as compared to the same period in 2003, the impact was more than offset by the addition of the former Slocan OSB operation.

- The Pulp and Paper segment incurred an operating loss of $10.1 million in the fourth quarter of 2004, compared to earnings of $9.2 million in the same period in 2003. Strong demand and tight supply of softwood pulp increased the average price delivered to northern Europe by 10% compared to the same period in 2003. However, when factoring in the impact of the strengthened Canadian dollar, the price increase was only 2%. The annual maintenance shutdown at the Prince George mill and the extended shut to commence construction of the Co-generation Project (discussed further in the Pulp and Paper section of this report) also adversely impacted results in 2004.

- Coastal Operations incurred an operating loss of $4.6 million in the fourth quarter of 2004, compared to a loss of $3.3 million in the same period in 2003. Weak markets and a decline in hemlock and cedar prices resulted in a $6.1 million inventory write-down at the end of 2004.

- Corporate costs were $6.1 million in the fourth quarter of 2004, compared to $8.6 million in the fourth quarter of 2003. $3.2 million of integration-related costs and severance were recorded in the fourth quarter of 2004, but these were more than offset by a $4.5 million reduction in other expenses.

- Other factors to consider when comparing the net income in the fourth quarter of 2004 with the net loss in 2003, include a $36.1 million after-tax unrealized exchange gain on the translation of US dollar long-term debt in 2004 ($20.7 million in 2003), which partially offset the impact of the stronger Canadian dollar on operating income, and a $19.5 million after-tax gain on the sale of property in 2003.

2004 OPERATING RESULTS

The following discussion of Canfor's operating results relates to the operating segments and the non-segmented items as per the Segmented Information note in the Financial Statements. Canfor's operations include the following four operating segments: Lumber, Panels, Pulp and Paper and Coastal Operations. With the integration of Slocan's operations as of April 1, 2004, the business segments previously reported by Canfor have been changed to better reflect the combined businesses. Canfor's lumber, plywood and panel and fibre operations were formerly reported in the "Wood Products" segment, which has now been separated into "Lumber" and "Panels". The Lumber segment includes the Company's sawmill and remanufacturing operations and the "Panels" segment includes the OSB, plywood and panel and fibre operations. The Pulp and Paper segment now includes the Taylor BCTMP operation and the Coastal Operations segment is unchanged. Prior periods have been restated to reflect the new reporting structure of the Lumber and Panels segments.

LUMBER

STRATEGY

To build a world-class lumber business

- optimize value from facilities and fibre resources, recognizing issues and opportunities with beetle-infested pine
- top quartile cost structure and margins
- product excellence, including service component
- target key customers
- increase committed-volume sales and margin-added sales
- maximize investments made in Supply Chain to meet customer demands

The Lumber segment is focused on optimizing value from its sawmill assets and fibre resources in order to meet customer needs for high-quality, eco-certified, branded products.

The segment consists of logging and forestry operations, which harvested from approximately 13 million cubic metres of allowable annual cut in northern British Columbia and northern Alberta in 2004.

The segment operates 19 sawmills in British Columbia, two in Alberta and one in Quebec, which have a combined lumber production capacity of 5.2 billion board feet. Other operations include two lumber remanufacturing facilities in British Columbia and one in Washington State, two whole-log chipping plants, which have an annual capacity of over 0.3 million oven-dried tonnes (Odt) of wood chips (total chip capacity is 1.7 million Odt including the sawmills), and two finger-joint mills. The segment also includes Canfor's wood products marketing division, located in Vancouver.

The Lumber operation's manufacturing strategy is aligned with Canfor's marketing strategy, which is to be diversified into the major customer segments of home centre, "pro-dealer", industrial, and national builders and to be aligned with the largest and best customers in these segments. Canfor's extensive reload lumber inventory network in key geographic locations in the US provides a distinct competitive advantage. Servicing our customers through supply chain management (Vendor Managed Inventories & Just-in-Time delivery) provides an advantage over our competitors in these markets. Shortages in skilled labour continue to drive changes in house construction trends, with a shift from traditional stick built homes to more component built homes leading to increased

engineering and product substitution. As a result, our manufacturing facilities must have flexibility to produce the full array of products, including PET (precision-end-trimmed) studs, MSR (machine-stress-rated), and shorter length lumber tallies.

Summarized results for the Lumber segment for 2004 and 2003 are as follows:

(millions of dollars)	2004	2003
Sales	$ 2,881.1	$ 1,566.9
Countervailing and anti-dumping duties expensed	$ 290.2	$ 146.6
Operating income (loss)	$ 411.6	$ (10.0)
EBITDA	$ 499.4	$ 41.4
EBITDA margin	17%	3%
Capital expenditures	$ 52.5	$ 93.1
Lumber shipments (millions of board feet)		
Canfor produced	4,628	2,942
Other producers	300	296
Lumber production (millions of board feet)	4,612	2,893
Chip shipments (thousands of oven-dried tonnes)	2,361	1,484
Average random length 2"x 4" SPF lumber price – US$ per thousand board feet (source: Random Lengths publication)	$ 395	$ 277
Average lumber price expressed in Canadian dollars	$ 514	$ 387

2004 HIGHLIGHTS

- Significant synergy gains were obtained with the conversion of the Slocan operations to the Canfor marketing strategy, with the focus on bringing these operations on-line with the supply chain. All previous Slocan operations are now on-line with the key information systems required to manage the supply chain. The integration of product grade and quality specifications was completed to ensure our customers receive a consistent product.

- During 2004, the previously established Interior Fibre Management (IFM) group was dissolved. The IFM group was a centralized wood fibre group providing fibre to manufacturing operations at market rates. Each manufacturing profit centre now has its own fibre department integrated with its operation, reinforcing its control and accountability for the entire range of business decisions that impact profit margin.

- Beetle salvage efforts. A comprehensive discussion of this issue follows under "Risks and Uncertainties" below.

- 2004 was a year of start-ups of capital installations at the Houston, Prince George, Fort St John and Quesnel mills. Although higher costs were associated with these start-ups and with mill clean-up initiatives, most of this is now complete at these operations. Canfor is very well positioned to realize higher production, lower costs, improved lumber recovery, and increased prime products in 2005.

- The work done in 2003 (capital investments, cost reductions) allowed the Lumber segment to capture the strong markets in 2004 with little or no downtime. The segment had significant downtime in 2003 at the Prince George and Fort St John sawmills, as a result of the capital installations.

MILL CLOSURES / DISPOSITIONS

- The closure of the high-cost Quesnel Specialty mill was initiated in November 2004 and production was transferred to the lower cost rebuilt Quesnel operation.

- Because of the increasing demand on Alberta's fibre supply, Canfor determined that the availability of timber for harvest would no longer sustain its two operations in that province. As a result, Canfor announced the permanent closure of its Hines Creek operation in order to maintain the amount of fibre available for processing at its Grande Prairie facility. The Hines Creek mill will remain in operation until June 30, 2005.

- The Federal Competition Bureau required the divestiture of the Fort St James sawmill and associated tenures as a condition to the acquisition of Slocan. The sale, to Pope & Talbot Ltd. for $39 million plus the value of inventory, was announced in December 2004 and is expected to close in April, 2005.

COUNTERVAILING (CVD) AND ANTI-DUMPING (ADD) DUTIES

In the current year, Canfor expensed combined CVD and ADD duties of $290.2 million (2003 – $146.6 million) and has paid combined duty deposits of US $538.2 million since the inception of CVD and ADD in May 2002.

On December 14, 2004, after completing its administrative review for the period from May 2002 to April 2003 (POR1), the US Department of Commerce (DOC) determined a CVD assessment rate of 17.18% for all Canadian companies for POR1 and an ADD assessment rate for Canfor at 2.06% and for Slocan at 1.37% for POR1. As a result of these determinations, Canfor recorded a $16.1 million favourable adjustment to duties accrued in prior years. The DOC's December 14, 2004 determination also resulted in the CVD cash deposit rate being reduced from 18.79% to 17.18% (although this is an increase from Canfor's company-specific cash deposit rate, which had been reduced to 12.24% effective prospectively from March 10, 2004) and the company-specific ADD cash deposit rate being reduced from 5.96% to 1.83% for US lumber shipments after December 20, 2004.

A comprehensive discussion of the DOC's December 14th rate determination, along with the history and current status of the duties is included in the Risks and Uncertainties section of this document.

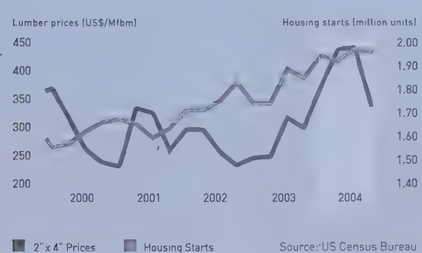
At December 31, 2004, Canfor had accrued additional CVD of $76.7 million in excess of the cash deposits made (included in "other accruals and provisions" on the balance sheet) and had accrued $116.9 million of cumulative ADD cash deposits in excess of the calculated expense (included in "long-term investments and other" on the balance sheet).

MARKETS

With the acquisition of Slocan on April 1, 2004 and the favourable market conditions, Canfor's lumber shipment volumes increased significantly in the year. In 2004, Canfor shipped 373 million board feet more than the combined Canfor and Slocan shipment volume in 2003. Much of the additional volume was directed to Canfor's customers through Canfor's distribution and reload systems.

Lumber markets were strong in 2004, with prices averaging US $395 per Mfbm for SPF 2" x 4" #2 & Better, which was a gain of 43% from the previous year. Low interest rates, record job creation and high consumer confidence fuelled all sectors of the housing market. Total US housing starts were 1.95 million units, a 5% increase from 2003 and the highest level since 1978. Single-family housing starts were at 1.61 million, which is a historical high. As a result, sales to Canfor's top 10 professional building materials suppliers ("pro dealers") increased by 26% from 2003.

Lumber prices vs US housing starts



Strong demand for existing homes resulted in record sales, which also resulted in a corresponding increase in house prices. Consumers used higher home equity to pay for home upgrades, which led to record levels of repair and renovation in 2004. As a result, Canfor's sales to the Home Centre segment increased by 6% in the year and represented 16% of total shipments.

In addition, transportation constraints within North America adversely affected the delivery of wood products and reduced supply to the market during a period of solid demand, thereby increasing product prices.

Offshore lumber demand was also strong during 2004. The improving Japanese economy resulted in increased housing starts, particularly Western-style 2"x 4" wooden housing starts, which reached a 7-year high. Canfor's total offshore shipments in 2004 increased by 7% over the combined Canfor and Slocan volume in 2003.

Despite the strong demand, the competitive position of Canadian producers was reduced due to the Canadian dollar appreciating by nearly 8% against the US dollar in 2004 and the continuing countervailing and anti-dumping duties.

OPERATING PERFORMANCE

All lumber operations ran at full capacity during 2004, except for the three days between Christmas and New Year. Some operations added extra shifts where possible to take advantage of strong prices. Six sawmills ran third shifts throughout the year, while one sawmill implemented third shifting in the second quarter in order to take advantage of the additional volumes of beetle wood (discussed further below) in the Quesnel forest district. Third shifting is in place at all operations that have adequate fibre supply and drying and planing capacity.

Despite harvesting more beetle-infested timber, which is of smaller size and decreased quality, overall productivity and recovery yields have remained consistent through improved manufacturing practices. Operations have been utilizing a variety of practices to mitigate the impact of declining log quality, with three mills operating on mainly cut-to-length harvesting systems, where logs are cut to predetermined lengths in the bush, which significantly increases the quality of the delivered timber. Management is considering making this change at three other mills in 2005. An exceptionally hot and dry summer in 2004 significantly reduced the amount of log harvesting, which resulted in log inventories reaching minimum efficient operating levels at several locations at various times during the year.

RISKS AND UNCERTAINTIES

FOREST POLICY DEVELOPMENTS – Discussed under "Risks and Uncertainties – Provincial Forest Policy Reform" later in this document.

MOUNTAIN PINE BEETLE (MPB) – The mountain pine beetle continues to pose a significant threat to the lodgepole pine forests in the interior regions of British Columbia. A significant portion of this infestation is within Canfor's operating areas. Lodgepole pine accounts for 25% of the total timber volume harvested in British Columbia and more than 50% of the total timber volume harvested by Canfor.

The MPB infestation in British Columbia now impacts approximately 280 million cubic metres of lodgepole pine and has spread at a rate that has averaged over 60% per year for the last four years. The Quesnel, Prince George, Morice and Lakes timber supply areas (TSAs), all integral to Canfor manufacturing facilities, continue to be the most heavily impacted. In addition, the infestation also impacts at least seven other TSAs in which Canfor operates including the Kamloops, MacKenzie, and Dawson Creek TSAs. Although the levels of attack and the rate of spread in the Dawson Creek TSA are relatively low, it does present a risk to the Chetwynd operation and there is a risk of entry of MPB into Canfor's Alberta Forest Management Agreement Area, which is approximately 40% lodgepole pine. This risk has resulted in a joint effort by Canfor, the BC Ministry of Forests, Weyerhaeuser and the Alberta Government to attempt to suppress the beetle in the Dawson Creek TSA.

Canfor is working with the Ministry of Forests and other operators in several areas to implement an aggressive program to mitigate the spread of infestation by redirecting planned timber harvesting to infected regions over the next five years. This has resulted in nearly 85% of the wood supply to Canfor's Prince George area mills being comprised of beetle harvest.

The average diameter of affected lodgepole pine logs tends to be smaller than traditional harvests and does not match well with existing sawmill equipment in the Prince George region. This issue is being addressed through realignment of manufacturing facilities to fit the changing fibre supply. In the short-term, Canfor has undertaken capital expenditures to realign its Prince George area manufacturing capabilities to accommodate the increase in fibre from beetle-infested logs. If the outbreak continues to spread,

the potential implications to Canfor include an eventual reduced fibre supply, a change in lumber product mix, increased costs and a potential decrease in the quality of lumber and chips produced. The general consensus is that beetle-killed timber will remain merchantable for 5 to 15 years, depending on local site conditions.

The Provincial government's focus in Quesnel, Prince George and the Lakes TSAs has shifted to salvage of beetle-killed timber rather than on suppression activities. The provincial Chief Forester has recently revised the allowable annual cut (AAC) in the Quesnel, Prince George and Lakes TSAs upward by approximately 4 million cubic metres to encourage salvage activities. Several new non-replaceable forest tenures will be advertised, inviting proposals for the use of this salvage volume. Eventually, within the next 10 to 20 years, it is expected that the AAC in the affected TSAs may have to be reduced to counter-balance the increases in AAC today. The extent of the reductions, and therefore the impact on Canfor's tenures and operations in those areas, is unknown at this time.

Late in 2004, Canfor in conjunction with the City of Prince George and local Ministry of Forests representatives, developed recommendations for a salvage strategy for affected lodgepole pine trees on provincial Crown land, city land and private property within the city limits. The Minister of Forests is expected to act on these recommendations in early 2005.

OUTLOOK

The housing market is expected to decline from the record pace of 2004, as interest rates are forecast to rise, particularly in the second half of 2005. However, the US economy is expected to remain relatively strong, with job creation, growth in household income and favourable demographics sustaining housing demand at a healthy level. It is anticipated that lumber prices will decrease moderately from the highs seen in 2004.

Following its strong recovery in 2004, Japan's economy is not expected to grow significantly in 2005. Total housing starts should remain flat, but 2x4 housing starts will likely continue to increase, reflecting builders' interest in this building method.

PANELS

STRATEGY

Plywood

- target higher-value end users – Industrials, VMI (vendor-managed inventory) and Home Centres

OSB

- target US West, primarily through wholesalers
- leverage lumber relationships to increase sales into Pro-Dealers and Home Centres and to increase committed sales volumes

The Panel segment includes two plywood plants, one in Prince George and one in Fort Nelson, British Columbia, with a combined annual production capacity of 440 million square feet (3/8" basis). The segment also includes an oriented strand board (OSB) facility, PolarBoard, also located in Fort Nelson, with an annual production capacity of 510 million square feet (3/8" basis), which will increase to 650 million in the second quarter of 2005 upon completion of a capital upgrade, as discussed further below. A panel and fibre operation, located in New Westminster, British Columbia, produces hardboard, refined fibre and wood fibre composite mat products for building, automotive and industrial uses.

Summarized results for the Panels segment for 2004 and 2003 are as follows:

(millions of dollars)	2004	2003
Sales	$ 373.4	$ 122.8
Operating income	$ 121.0	$ 5.3
EBITDA	$ 129.5	$ 7.8
EBITDA margin	35%	6%
Capital expenditures	$ 61.8	$ 1.8
Plywood shipments (millions of square feet – 3/8" basis)	344	172
OSB shipments (millions of square feet – 3/8" basis)	380	-
Hardboard shipments (millions of square feet – 3/8" basis)	43	38
Refined fibre and fibremat shipments (thousands of oven-dried metric tonnes)	37	38
Average plywood price – Cdn $ per Msf 3/8" basis, delivered to Toronto (source: C.C. Crowe's Publications, Ltd.)	$ 532	$ 443
Average OSB price – US $ per Msf 7/16", North Central (source: Random Lengths publication)	$ 371	$ 295
Average OSB price expressed in Canadian dollars	$ 483	$ 365

MARKETS

The North American structural panels market was also strong in 2004 and for similar reasons as the lumber market – record housing construction and transportation challenges. As a result, average prices for both plywood and OSB set new records in the year. The average Canadian spruce plywood price was Cdn $532 per Msf 3/8" basis, delivered to Toronto, a 20% increase over 2003. The price of OSB was US $371 per Msf 7/16" North Central, or 26% higher than last year.

With the acquisition of Slocan, Canfor's plywood sales increased significantly, from 172 million square feet in 2003 to 344 million square feet in 2004. This 2004 volume includes the Slocan volume from April 1 onwards. Although the majority of Canfor's plywood is sheathing, used in framing walls of new houses, 18% of the total combined volume is a select grade, which receives a considerable price premium to standard plywood. The majority of the plywood (84%) was sold to Central and Eastern Canadian markets, 14% was shipped to the US and a small volume (2%), was sold to Japan.

Shipments of OSB in 2004 totaled 380 million square feet from April 1 onwards. The majority of Canfor's OSB is Performance Rate Sheathing, used in wall construction of new homes, and in repair and remodeling projects. Most of the OSB sales (81%) are to the fast-growing US West markets, where Canfor has a transportation advantage over Eastern Canadian producers. Shipments to the US Midwest were 3% of the total and the remaining 16% was sold to Canadian markets.

Total shipments of plywood and OSB products were at similar levels to the separate Canfor and Slocan volumes in 2003, with OSB representing 52% of the total.

OPERATING PERFORMANCE

Panel operations ran near capacity during 2004. The PolarBoard OSB plant ran at full capacity, with the installation of a third disk flaker in the summer resulting in increased production of approximately 7%. Both plywood plants were down for a total of 3 weeks in the year for capital project installations, which affected overall performance to some degree.

A $25.6 million modernization and production expansion project at the PolarBoard mill was announced in the third quarter of 2004. While reducing environmental emissions by 21%, the upgrade will result in a 21.5% increase in production capacity to 650 million square feet per year (3/8" basis). The upgrade is targeted for completion in May 2005.

CANFOR-LP OSB LIMITED PARTNERSHIP

In 2000, Slocan entered into a shareholders' agreement with Louisiana-Pacific Canada Ltd. to jointly undertake construction and operation of an OSB mill with rated annual capacity of 820 million square feet (3/8" basis) in Fort St John, British Columbia. The decision to proceed with the project was made in January 2004. Canfor has agreed to supply 330,000 cubic metres of timber annually to the joint venture out of its existing timber tenure in the area. The venture is in the pre-operating construction phase.

In 2004, Canfor made capital contributions of $38.2 million to the venture. In order to retain its 50% interest, Canfor has agreed to contribute 50% of the capital to fund the project, which is estimated to have a total cost of $226.4 million. At December 31, 2004, Canfor's 50% share of outstanding purchase commitments totaled $53.3 million.

Canfor's 50% interest in the joint venture has been proportionately consolidated at December 31, 2004. At the end of the year, a limited partnership was formed to own the joint venture and carry on the business.

OUTLOOK

The outlook for structural panel demand in 2005 is favourable. Despite higher interest rates, it is anticipated that demand for housing will remain strong. However, OSB supply is expected to increase in the second half of the year as new projects start up, including Canfor's joint venture OSB plant. The increased supply is expected to result in overall lower prices for OSB during the second half of 2005.

PULP AND PAPER

STRATEGY

- to be a low cost producer of the most consistent, superior strength, reinforcing NBSK pulp
- leverage technical fit with strategic customers
- maximize cash generation
- be profitable at the bottom of the cycle

In 2004, the Pulp and Paper segment added the Taylor Pulp operation, a producer of BCTMP to the segment as a result of the Slocan acquisition. This business unit is managed to maximize overall earnings potential.

The segment is organized into 3 distinct business units: Premium Pulp, BCTMP and Specialty Paper. Canfor's Premium Pulp, which is produced from long northern British Columbia wood fibres, offers the strength sought by paper makers world wide, and consists of the Prince George, Intercontinental and Northwood pulp mills. All of the mills are located within five kilometres of each other in Prince George, British Columbia with the exception of Taylor, which is located in Taylor, British Columbia. The pulp mills have the annual capacity to produce over one million tonnes of premium pulp and over 200 thousand tonnes of BCTMP. The paper machine, located at the Prince George Pulp and Paper Mill, has the capacity, at optimum product mix levels, to produce 142 thousand tonnes of kraft paper. The segment also includes Canfor's pulp and paper marketing division, located in Vancouver.

Summarized results of the Pulp and Paper segment for 2004 and 2003 are as follows:

(millions of dollars)	2004	2003
Sales	$ 981.7	$ 853.4
Operating income	$ 45.1	$ 25.7
EBITDA	$ 89.6	$ 69.8
EBITDA margin	9%	8%
Capital expenditures	$ 61.1	$ 23.3
Average pulp price – US$ per tonne, delivered to northern Europe	$ 624	$ 527
Average pulp price expressed in Canadian dollars	$ 812	$ 738
Pulp shipments (thousands of tonnes)	1,114	999
Pulp production (thousands of tonnes)	1,142	992
Specialty Kraft paper shipments (thousands of tonnes)	140	121
Specialty Kraft paper production (thousands of tonnes)	134	129

The segment's results for 2004 improved over the previous year, mainly as a result of higher pulp prices and lower conversion costs. However, these factors were partially offset by the strengthening of the Canadian dollar, higher costs for fibre (which are contractually tied to overall pulp prices) and higher energy costs. In addition, when comparing the results to the prior year it should be noted that $9.8 million of realized gains on forward exchange contracts were included in the 2003 results.

During 2004, the cost to complete the BC Hydro Power Smart Co-generation project at Canfor's Prince George Pulp and Paper Mill was increased by $36 million, from the original project estimate of $81 million. These higher costs resulted from initial under-estimating of the cost of certain elements of the project, and from project design modifications and inflated steel prices. Despite the higher cost, the project remains on schedule and will enable the Company to reduce energy consumption. In addition to lowering the segment's production costs, this project will provide environmental benefits to the area by significantly lowering emissions in the Prince George air shed and allowing for the decommissioning of beehive burners at the Polar and Isle Pierre sawmills.

The project is a joint undertaking with BC Hydro, which is to contribute up to $49 million under its "Power Smart" program. Under the 15-year agreement, Canfor will install a 48-megawatt turbo-generator and a wood residue handling and conditioning system. Modifications will be made to the pulp mill boilers and processes to optimize steam production for the generation of electricity. An upgrade of the mill's electrical system will also be completed. At December 31, 2004, Canfor had capitalized $42.2 million of initial project costs.

MARKETS

PREMIUM PULP – As 2004 began, economic growth in the major economies of the world was steady, but not strong. However, as the year progressed, forecasts of stronger growth materialized. Strong GDP growth in North America and Asia, and somewhat slower growth in Europe, combined to drive solid performance of key sectors of the economy that trigger demand growth in paper products, and hence, market pulp. These sectors include print advertising and a wide range of consumer products that utilize paper.

With economic growth propelling paper demand, and with Asian markets restocking from late 2003 into the second quarter of 2004, pulp orders were very strong until late in the second quarter. The tugboat operators' strike in the Port of Vancouver, and the CN Rail strike, both late in the first quarter, caused a tightening in supply to world markets. The availability of shipping containers for offshore shipments to Asia was constrained on the Canadian west coast because of firm demand for them from China. All of these factors combined to tip the supply and demand balance for market pulp in favour of suppliers early in the first quarter. This condition allowed for aggressive pricing gains.

Pricing in northwest Europe began the year at US $560 per airdry metric tonne. By the end of the second quarter this pricing level had risen to US $670 per tonne. Pricing then decreased through the summer to the US $590 level, and rebounded by year end to US $630. Shipments of all chemical market pulp to China in 2004 increased by 28% over the same period in 2003. It is not unusual for the industry to encounter buying behaviour in this market that impacts monthly volumes up or down by 150,000 tonnes. By building up inventories and then decreasing purchases and utilizing their inventories, this speculative buying can influence prices in a significant manner.

Another factor that impacted the market pulp business in 2004 was the dramatic weakening of the US dollar. Since most market pulp is sold in US dollars on world markets, when the currencies of producing countries strengthen against the US dollar, this tends to both support prices, and to limit the level to which prices will fall when shipments are weak. This was the case in 2004, when pricing dropped through the summer but stopped decreasing at pricing levels far higher than would have been the case at exchange rates of two years ago.

PAPER – Despite a price increase mid year, and improvements in grade mix and quality, Canfor's realized paper price declined by 8% compared to 2003 as a result of exchange factors. Approximately 74% of paper sales were in US dollars in 2004, and accordingly, the impact of the strengthened Canadian dollar had an adverse effect on revenues and profitability. This reality is driving the Specialty Paper's strategy of improving profitability by transitioning to higher-margin high performance papers, particularly bleached papers. Sales of higher-margin bleached papers increased by 41% in 2004.

OPERATING PERFORMANCE

PREMIUM PULP – Average production for the Intercontinental, Northwood and Prince George Pulp mills was 3,160 tonnes per day, compared to the record of 3,196 tonnes per day achieved in 2003. The mills ran below target performance as a result of several factors including lightning strikes and start-up difficulties following annual maintenance shutdowns. Lightning strikes in early June interrupted operations at all of the Prince George mills, but especially at Northwood, where 3,200 tonnes of production was lost and a generator was destroyed, leading to increased hydro costs for a three-week period. The Prince George pulp machine did not run for the month of October and the first six days of November due to its major maintenance shutdown, followed by the curtailment for the Prince George Pulp and Paper Mill Co-generation Project. During the curtailment period only the paper machine ran. A total of 28.4 days were attributed to this curtailment period, which was 6.4 days over budget. Weather delays and asbestos found during the conversion of the No.1 Recovery Boiler at the Prince George mill were the main reasons for the extended curtailment period.

Conversion costs were down by $4 per tonne from 2003, which is a significant decrease when factors such as inflation (including rising energy and materials prices) and relative performance to 2003 are considered, and is attributable to focused efforts on cost control and lower maintenance and chemical costs. During 2004 all three mills successfully implemented a move to an 18 month shutdown cycle compared to the historical annual (12 month) maintenance cycle, which, combined with focused efforts on reliability, risk-based inspections and defect elimination work, were the main factors contributing to the reduction in maintenance costs.

PAPER – As discussed above, the production curtailment at the Prince George mill for the Co-generation Project resulted in a reduction of production on the paper machine for 28.4 days. A repulping strategy partially reduced the production loss, but prime production was approximately 2,000 tonnes below the full production rate for the period. Aside from this, production and quality improved in 2004, with prime production (a key performance indicator measured by "customer tonnes per day") increasing by 7%, or 11,000 additional prime tonnes, over the 2003 performance.

DISCONTINUED OPERATION (2003)

On August 29, 2003, Canfor completed the sale of its BC Chemicals division, formerly included in the Pulp and Paper segment, to a limited partnership owned by Chemtrade Logistics Income Fund for proceeds of $117.3 million. A gain of $79.6 million ($60.2 million after tax) was realized for accounting purposes. The gain on sale and operating results prior to the sale ($11.4 million for the eight months in 2003) were reported as "Discontinued Operations" on the income statement.

The BC Chemicals plant is located adjacent to Canfor's Prince George/Intercontinental Pulp mills and Specialty Paper Mill, with a major portion of its production of sodium chlorate and crude tall oil being used by Canfor's mills, and the remainder being allocated between merchant sales and trades. Sodium chlorate is used in the bleaching phase of the kraft pulping process and crude tall oil, produced from soap skimmings recovered from pulp mills, is used by Canfor's pulp mills as a substitute for natural gas. Canfor has entered into several long-term agreements with Chemtrade Logistics, at market prices, to ensure a supply of chlorate and the processing of soap skimmings into crude tall oil.

RISKS AND UNCERTAINTIES

The main business risks for the pulp and paper segment center around pulp pricing, exchange rates and energy prices.

To counter these risks, Canfor will continue to strive for a low-cost position on the global cost curve for both pulp and paper. Successful implementation of the Co-generation project will help bring the Prince George mill's conversion costs down to the level of Canfor's other mills. An agreement with Shell Global Solutions to implement an asset management process will be fully implemented in 2005 and is expected to help further reduce maintenance costs and increase reliability of production. In addition, the period of time in between maintenance shutdowns has been lengthened, which will increase productivity and further reduce overall maintenance shutdown spending. There is also a risk associated with the increase in the shutdown cycle. However, to meet regulatory requirements and to mitigate the risk of major breakdowns occurring due to the longer maintenance cycle, the mills perform "mini-shuts" within the 18-month period in order to address any issues that may arise.

For paper, the continued focus will also be on increasing sales of higher-value products and phasing out less profitable grades, customers and geographic regions.

OUTLOOK

The pulp market in 2005 is anticipated to be similar to 2004. Pricing is expected to increase through the first and second quarters in response to strong demand from papermakers, and to supply constraints caused by annual maintenance shutdowns in the spring. Weaker demand may be encountered during the seasonally slow summer months, which could negatively impact prices. The usual seasonal boost in demand toward late summer and early fall should allow mills to run steadily and prices to rise toward year end.

COASTAL OPERATIONS

STRATEGY

- maintain a safe, profitable, market-sensitive, cost-competitive logging and fibre management operation

Canfor's Coastal Operations segment is comprised of the Coastal Logging operations, which includes the Englewood logging operation, located on northern Vancouver Island, and the Mainland logging operation, located in the Fraser Valley, Sunshine Coast and in the lower Lillooet River areas of British Columbia. These operations logged on tenures having an allowable annual cut of 1.5 million cubic metres in 2004, of which 1.3 million was harvested in that year.

Highlights in 2004 included the achievement of major improvements in safety and maintaining an excellent environmental record.

Summarized results of the Coastal Operations segment for 2004 and 2003 are as follows:

(millions of dollars)	2004	2003
Sales	$ 105.7	$ 119.5
Operating income (loss)	$ (2.2)	$ 1.4
EBITDA	$ 4.6	$ 7.2
EBITDA margin	4%	6%
Capital expenditures	$ 6.7	$ 5.0
Log shipments (thousands of cubic metres)	1,148	1,237
Log production (thousands of cubic metres)	1,312	1,258

Coastal Operations experienced strong demand and strengthening log prices in the first two quarters of 2004. The strengthening Canadian dollar coupled with declining prices in Japan led to an abrupt softening in demand and price for all species of logs in the third and fourth quarter. In response to the rapidly weakening log market, Coastal logging operations were shut down in November and December.

MARKETS

The Coastal market was relatively strong at the beginning of 2004, mainly as a result of low inventory levels caused by reduced logging activity by other producers in the region. Coastal Operations delayed start up of logging to take advantage of reduced stumpage rates that came into effect in March 2004 under the new Market Priced Stumpage (MPS) system. However, by the end of the second quarter, uncertainties in the Japanese market, the continuing softwood lumber dispute and the strengthening Canadian dollar caused the market to erode. Demand and prices remained weak for the remainder of the year.

OPERATING PERFORMANCE

Production costs were down overall by 5% from 2003 levels due to lower stumpage costs as a result of the implementation of MPS in March of the current year. Excluding the benefit of the lower stumpage costs, the balance of operating costs increased in 2004, with contractor costs being significantly higher on a per unit basis. However, the benefit from the overall reduction in costs was more than offset by weaker prices in the second half of the year, which led to the average log selling price in 2004 being approximately 3% lower than in 2003. In addition to the seasonal and market-related shutdown at the end of the year referred to above, logging operations were shut down in July and August because of fire hazard.

RISKS AND UNCERTAINTIES

The reduction in the number of manufacturing mills on the Coast, together with uncertainties in the Japanese market, continue to have a major impact on coastal log markets. Going forward, Canfor will continue to monitor its competitors' operating levels and adjust its strategy accordingly. In addition to pricing and market demand, the critical factor that will impact future profitability is the need to continue to reduce costs.

Tenure take-back, discussed under "Risks and Uncertainties – Provincial Forest Policy Reform" later in this document, also creates uncertainties for Canfor's Coastal Operations and all other major companies operating in the BC forest industry.

OUTLOOK

Coastal logging operations continued their seasonal shutdown into the beginning of 2005 because of winter weather and poor market conditions. Current projections indicate that logging will not commence until the end of February at the earliest due to poor markets.

Sawlog demand is forecast to remain low throughout the first quarter of 2005 and prices are not expected to improve until sometime in the second quarter. Pulplog prices are expected to remain low in the first half of 2005 due to continuing soft demand. Weak markets and a decline in demand resulting from industry consolidation and shutdowns, particularly on the Coast, are the main reasons for the continuing low prices.

NON-SEGMENTED ITEMS

CORPORATE AND OTHER

Non-segmented expenses of $54.0 million, which are comprised of corporate costs, information technology costs and research and development costs, increased by $28.8 million in 2004, compared to 2003. Although spending reductions initiated in prior years have continued into 2004, additional costs were incurred as a result of integrating the former Slocan head office, including severance costs of $9.2 million, asset write downs and lease costs of $7.2 million and duplicated corporate administration costs of $3.7 million. Other one-time expenses include $4.1 million of special incentive awards paid in the first and second quarters and other severance of $1.0 million.

AFFILIATED COMPANIES

Canfor's affiliated companies, which are accounted for on an equity basis, consist of Lakeland Mills Ltd., The Pas Lumber Company Ltd., Vernon Seed Orchard Co. and Kyahwood Forest Products. Lakeland and The Pas operate sawmills in the Prince George region and supply wood chips to Canfor's pulp mills. Kyahwood, which is owned 49% by Canfor, is a value-added lumber facility in Moricetown, British Columbia. The combined income of these affiliates increased by $11.7 million, to $11.3 million, from 2003 to 2004, mainly as a result of the strong market conditions in the current year, similar to those discussed in the Lumber segment.

INTEREST EXPENSE

Interest expense of $50.4 million, net of interest income of $8.3 million, decreased by $0.1 million in 2004 from the $50.5 million expense in 2003. Although interest on long-term debt increased by $9.0 million as a result of the new US $235.0 million financing obtained in 2004 (see "Financial Requirements and Liquidity" below), the effect was offset by the impact of the stronger Canadian dollar on US denominated interest payments and higher interest income from temporary investments.

OTHER EXPENSE

Other expense of $3.8 million is mainly comprised of a $3.0 million write-down of deferred costs for the Maine, USA sawmill project, which has been discontinued. Other items include a $1.0 million write-down of Coastal assets, a $0.8 million loss on the sale of a corporate jet, and a $0.7 million loss from a non-core subsidiary. These expenses were partially offset by a $0.9 million Large Corporation Tax recovery from Howe Sound Pulp and Paper Limited Partnership (HSLP) and gains on the sale of land amounting to $0.8 million. In 2003, other income of $24.9 million was mainly comprised of a $23.8 million gain from the sale of a gravel pit and timberland property located on the coast of British Columbia.

INCOME TAXES

The income tax expense of $106.4 million recorded in 2004 is net of the benefit of utilizing $68.5 million of deferred tax credits acquired from HSLP (2003 – nil) and future income tax savings of $1.1 million (2003 - $8.1 million) arising from Canfor's share of HSLP's current operating losses. The history behind these losses is as follows.

On March 10, 2001, Canfor and Oji Paper Co., Ltd. (Oji) of Japan, its 50% co-venturer in the Howe Sound Pulp and Paper Limited (Howe Sound) joint venture, transferred the business of Howe Sound into a limited partnership, HSLP. HSLP continues to be jointly owned by Canfor and Oji and continues to carry on the operations of Howe Sound. As a result of the reorganization, Howe Sound was amalgamated with Canadian Forest Products Ltd. (CFP), Canfor's principal operating subsidiary, and approximately $643 million of tax losses of Howe Sound became available to reduce the future taxable income of CFP. CFP has seven years in which to utilize these losses. As part of the reorganization, CFP made a payment of $60.2 million to HSLP in 2001, which was applied to reduce its long-term debt. During 2002 and 2004, CFP made additional payments to HSLP of $5.0 million and $7.0 million respectively as a result of losses utilized. A final payment of $50.0 million was made to HSLP on January 2, 2005.

The other significant factor when comparing the 2004 and 2003 tax figures is the impact of capital gains. Included in 2003 were $98.5 million of taxable capital gains resulting from property dispositions and the translation of US dollar denominated debt, compared to no taxable capital gains in 2004.

TRANSACTIONS WITH RELATED PARTIES

HOWE SOUND PULP AND PAPER LIMITED PARTNERSHIP (HSLP) – Canfor's Coast Fibre Supply group, included in the Coastal Operations segment, sells and trades the log production of the Coastal logging operations to acquire the logs and chips required for HSLP's pulp and newsprint mills. Logs that can be chipped by HSLP's Westcoast Cellufibre operation are sold to that operation at market value. Logs that cannot be used by Westcoast Cellufibre are sold to or traded with other coastal operators, with the primary objective of obtaining the pulp logs and chips required by HSLP. In 2004, HSLP purchased logs valued at $14.2 million from Coast Fibre Supply (2003 – $9.1 million). In addition, the Coast Fibre Supply group sources logs and chips for HSLP from areas such as southern Alaska, northern Washington and the interior of British Columbia. Coast Fibre Supply provides these management, fibre supply and other services to HSLP at cost, for which it charged $1.9 million in fees for 2004 (2003 – $1.8 million). There was a balance outstanding of $4.6 million at December 31, 2004 with respect to these fees and other receivables (2003 – $3.2 million).

Canfor's Pulp and Paper marketing division markets the pulp production of HSLP, for which it received commissions totaling $3.0 million, on sales volume of 357,900 tonnes, in 2004 (2003 – $2.8 million, on volume of 361,700 tonnes). Based on a separate prepayment agreement between Canfor and Oji, the partners of HSLP, at December 31, 2004, Canfor had prepaid $44.0 million to HSLP in advance of the due date of receivables for pulp marketed and collected on their behalf (2003 – $33.5 million). This agreement provides for the partners to prepay up to a maximum amount of $50 million each, which is used as short-term operating funds by HSLP. Canfor charges HSLP a market rate of interest for the period of prepayment.

In addition, on October 31, 2004, CFP purchased HSLP's offsite pulplog and chip inventory at its market value of $19.1 million. CFP has also agreed to purchase pulplogs and chips for resale to HSLP at CFPs cost to meet HSLP's future requirements. HSLP will pay a fee to CFP for this service.

As a result of continuing losses at Howe Sound, Canfor and its partner Oji are evaluating strategic alternatives for this operation. Canfor wrote off its interest in the joint venture in 1998 and no longer reflects its share of Howe Sound's results. Canfor's method of accounting for its interest in the Partnership did not change as a result of the March 10, 2001 reorganization.

LAKELAND AND THE PAS – Canfor purchases pulp chips and lumber, at market value, from Lakeland Mills Ltd. and The Pas Lumber Company Ltd., in which it holds a one-third equity interest, through its subsidiary 317231 British Columbia Ltd. In 2004, Canfor purchased $15.3 million in pulp chips and $13.0 million in lumber from these mills (2003 –$10.7 million and $10.8 million, respectively).

KYAHWOOD FOREST PRODUCTS – Canfor has a joint venture, Kyahwood Forest Products, with the Moricetown First Nations. The investment is being accounted for on the equity basis due to its relative size in relation to Canfor's other investments and to the fact that the joint venture is managed by the Band. During 2004, Kyahwood Forest Products provided remanufacturing services, at market value, to Canfor in the amount of $5.8 million (2003 – $5.1 million).

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at the end of the years 2004 and 2003 and the cash flow related to the changes in financial position for those years.

(millions of dollars, except for ratios)	2004	2003
Net cash (short-term indebtedness)	$ 483.7	$ (57.4)
Operating working capital	485.9	407.0
Current portion of long-term debt	(68.1)	(57.2)
Current portion of deferred reforestation	(50.3)	(39.6)
Income taxes recoverable	14.7	1.4
Net working capital	865.9	254.2
Long-term investments	197.4	100.5
Property, plant, equipment and timber	2,219.2	1,443.5
Deferred charges	94.9	126.8
Net assets	$ 3,377.4	$ 1,925.0
Long-term debt	$ 660.5	$ 478.0
Deferred reforestation provision	72.4	34.0
Other long-term provisions and accruals	151.3	49.0
Future income taxes – net	499.2	175.7
Deferred credit	27.2	95.7
Common shareholders' equity	1,966.8	1,092.6
Total capitalization	$ 3,377.4	$ 1,925.0
Ratio of current assets to current liabilities	2.3 : 1	1.5 : 1
Ratio of net debt to common shareholders' equity	11 : 89	35 : 65
Cash generated from (used in)		
Operating activities	$ 713.4	$ (1.3)
Dividends	-	(10.6)
Financing activities	43.8	(58.4)
Investing activities	(216.1)	(131.2)
Discontinued operations	-	121.2
Increase in short-term indebtedness / decrease in net cash	$ 541.1	$ (80.3)

CHANGES IN FINANCIAL POSITION

Canfor's ratio of current assets to current liabilities increased to 2.3:1 at the end of 2004 from 1.5:1 at the end of 2003, mainly as a result of the increase in cash and temporary investments arising from the improved cash flow from operations.

Canfor's ratio of net debt to equity (defined as the ratio of total debt, net of cash and temporary investments, to shareholders' equity) improved to 11:89 from 35:65 in 2003. The improvement is mainly attributable to the increase in shareholders' equity resulting from the 49.3 million shares issued in the Slocan acquisition ($452.9 million) and from the current year's earnings of $420.9 million.

The changes in the components of these ratios during 2004 are detailed in the Consolidated Cash Flow Statement of the Financial Statements. The more significant changes are discussed below:

OPERATING ACTIVITIES – In 2004, Canfor generated cash of $713.4 million from operating activities, an increase of $714.7 million over 2003. Operating earnings before amortization (EBITDA) improved by $569.7 million on the strength of lumber, panel and pulp markets and the inclusion of the Slocan operations since April 1. Changes in non-cash working capital contributed $59.6 million to cash in 2004, as compared to 2003, where changes in these balances consumed $30.0 million in cash.

In 2004, the major changes in non-cash working capital (after factoring in Slocan's opening balances) were a $56.5 million decrease in accounts receivable, a $51.2 million decrease in inventories and a $37.6 million decrease in accounts payable. The decrease in accounts receivable at year-end is mainly attributable to the effect of the stronger Canadian dollar on US dollar receivables as well as the receipt of $16.6 million from the sale of property, which had been accrued at the end of 2003. The decrease in inventories is mainly from the increase in lumber shipments and a reduction in log inventories. Log inventories were high at the end of 2003 because logging had been accelerated in order to avoid a January 1, 2004 stumpage rate increase. Income tax payments totaling $33.5 million were made in the year (2003 – $5.6 million), the majority of which had been accrued by Slocan prior to April 1, 2004 and relate to its pre-acquisition earnings. Interest payments of $56.3 million were made in the year (2003 – $59.2 million).

FINANCING ACTIVITIES – In 2004, Canfor generated cash of $43.8 million from financing activities, an increase of $112.8 million from 2003. The increase is the result of new financing obtained in the year, which totaled US $235 million, of which US $160 million was utilized to pay down Slocan's debt, as discussed below. Scheduled long-term debt payments of US $43.8 million were made in 2004 (2003 – US $32.5 million) and a subsidiary made long-term debt repayments of $7.7 million (2004 – $11.2 million). No dividends were paid in 2004 (2003 – $10.6 million).

INVESTING ACTIVITIES – Cash used in investing activities increased by $84.9 million in the year, to $216.1 million, mainly as a result of increased capital expenditures. Of the $184.5 million that Canfor invested in capital assets in 2004, over 75% has been strategic in nature, to increase shareholder value by improving the Company's cost position, productivity and production capacity. The other 25% has been to maintain the existing productive capacity of the operations or to ensure proficient safety and environmental performance. The largest investments in the year included $37.3 million for the Co-generation Project at the Prince George Pulp and Paper Mill, $13.0 million to expand production at the PolarBoard OSB plant in Fort Nelson, $15.0 million on company-wide road projects, $4.4 million to purchase an ice-breaking log transporter in the Mackenzie region, and $4.0 million to upgrade the Daaquam sawmill in Quebec. In addition, Canfor invested $38.2 million in its new 50%-owned OSB plant currently under construction in Fort St John.

Proceeds from the sale of property, plant and equipment totaled $10.6 million in 2004, the majority of which was from the sale of a corporate jet. In 2003, proceeds of $28.3 million were received, mainly to do with the sale of private timberlands and a gravel pit located on the Coast of British Columbia.

FINANCIAL REQUIREMENTS AND LIQUIDITY

At the end of 2004, Canfor had $332.0 million of bank operating lines of credit available, of which $4.5 million was drawn down and an additional $47.1 million was utilized for several standby letters of credit.

Provisions contained in Canfor's long-term borrowing agreements limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its Common Shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments. As at December 31, 2004, the Company was permitted under these agreements to incur $1,214.2 million of additional long-term debt (2003 – $573.9 million) and pay up to $458.0 million, or $3.20 per share, in dividends on its Common Shares (2003 – $164.3 million, or $2.02 per share).

In 2005, Canfor plans to invest approximately $316 million on capital projects, including $220 million in strategic projects that will improve operating performance by changing the size or scope of the operations. The remaining $96 million represents maintenance of business and other improvement projects.

Included in the $315 million of capital projects is $104 million for a major expansion of the Plateau Division at Vanderhoof, BC. The project will increase the mill's annual production to approximately 620 million board feet, and will help to meet customer needs while also enhancing the mill's ability to extract value from beetle-infested timber. The equipment being installed was chosen to handle the specific characteristics of beetle wood. The project will lower cash conversion costs and increase lumber recovery. The project will commence in the first quarter of 2005, with completion expected by the end of the year. No significant disruptions to existing operations are anticipated during the construction phase.

In 2005, $68.1 million is required for scheduled long-term debt repayments.

Canfor intends to finance its planned capital expenditures, including the Plateau expansion, and scheduled debt repayments from existing cash reserves and cash generated from its operations.

New private placement financing of US $50 million was drawn down on February 2, 2004 and was utilized for general operating purposes and capital expenditures. On April 1, 2004, the US $160 million of long-term debt assumed upon the acquisition of Slocan was refinanced with new private placement debt of US $185 million. The balance was used to pay a make-whole penalty on Slocan's debt and for general corporate purposes. The new debt is in the form of unsecured senior notes, which have the following interest rates and maturities: US $60 million at 5.66% (2009), US $50 million at 6.18% (2011), US $50 million at 6.33% (2012), and US $75 million at 5.42% (2013).

In October 2004, Canfor entered into a new unsecured and committed $325 million credit facility to replace its existing demand operating lines of credit. This facility, which is comprised of a $125 million 364-day amount and a three-year $200 million amount, is renewable annually and bears interest based on LIBOR or Canadian prime plus a margin based on Canfor's credit rating.

On November 15, 2004, Canfor announced its intention to redeem all of its outstanding convertible subordinated debentures at the principal amount of $155.0 million plus accrued interest. The holders of the debentures exercised their right of conversion under the debentures, which resulted in the Company issuing 11,742,424 Common Shares to them. At the same time, Canfor commenced a Normal Course Issuer Bid, to purchase for cancellation up to 6,578,868 common shares, or approximately 5% of the Company's then outstanding shares over a one-year period. In December 2004, Canfor purchased 104,800 shares on the open market at an average price of $14.65 per share. The shares were cancelled in January 2005. The bid is expected to continue until October 14, 2005, unless terminated or completed earlier.

The following table summarizes Canfor's financial contractual obligations for each of the next five years and thereafter:

Contractual Obligations at December 31, 2004 (Cdn $ millions)	Total	2005	2006	2007	2008	2009	Thereafter
Long-term debt and capital lease obligations	$ 728.6	$ 68.1	$ 98.6	$ 89.8	$ 18.3	$ 165.5	$ 288.3
Operating leases	$ 61.5	$ 24.9	$ 16.5	$ 9.8	$ 5.2	$ 2.4	$ 2.7
Capital expenditures	$ 62.9	$ 62.9	-	-	-	-	-
Other contractual obligations	$ 5.0	$ 5.0	-	-	-	-	-
	$ 858.0	$ 160.9	$ 115.1	$ 99.6	$ 23.5	$ 167.9	$ 291.0

Other contractual obligations not included above are:

- Purchase obligations in the normal course of business, which have not been included above due to the impracticality of compiling the information, and the individual immateriality of the amounts involved. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on Canfor's requirements in any given year. As discussed in the Pulp and Paper segment, Canfor has entered into several long-term agreements with the purchaser of BC Chemicals to ensure a continued supply of chlorate and processing of the pulp mills' soap skimmings. The minimum commitment under these agreements is for ten years, at $29 million per year for chlorate and $4.5 million for soap skimming.
- Deferred reforestation, for which a liability of $122.7 million has been recorded at December 31, 2004 (2003 — $73.6 million). The reforestation liability is a fluctuating obligation, based on the volume of timber harvested. The future cash outflows are a function of the actual costs of silviculture programs and of harvesting at the time and are based on, among other things, the location of the harvesting.
- Canfor uses financial instruments to reduce its exposure to risks associated with rising energy costs. At December 31, 2004, commodity swaps hedging future natural gas purchases of 2.6 million Gigajoules were outstanding, at an average price of $6.26 per Gigajoule. These swaps extend through to October 2008. In addition, at December 31, 2004 Canfor had commitments with natural gas producers to purchase 1.6 million Gigajoules at an average price of $7.06 per Gigajoule. These contracts extend through to October 2005.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect Canfor's financial position.

EMPLOYEE FUTURE BENEFITS – Canfor has various defined benefit and defined contribution plans providing both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other retirement benefit plans are accrued in accordance with the recommendations of the Canadian Institute of Chartered Accountants (CICA).

Canfor uses an independent actuarial firm to perform actuarial valuations of the fair value of pension and other retirement benefit plan obligations. The application of these recommendations requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligation,

the expected rate of return on plan assets and the rate of compensation increase. Management and the Company's Pension Committee evaluate these assumptions annually based on its own experience and the recommendations of its actuarial firm. Changes in these assumptions result in actuarial gains or losses, which are amortized over the average remaining service period of the active employee group covered by the plans, only to the extent that the unrecognized net actuarial gains and losses are in excess of 10% of the greater of the accrued benefit obligation and the market-related value of plan assets.

DEFERRED REFORESTATION – Canfor accrues an estimate, in current dollars, of its future liability to perform forestry activities, defined to mean those silviculture treatments or activities that are carried out to ensure the establishment of a free-growing stand of young trees, including logging road rehabilitation. An estimate is recorded in the financial statements based on the number of hectares of timber harvested in the period. The actual costs that will be incurred in the future may vary, based on, among other things, the actual costs at the time.

FUTURE INCOME TAXES – In according with CICA recommendations, Canfor recognizes future income tax assets when it is more likely than not that the future income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the future income tax assets could be reduced or increased, resulting in an income tax expense or recovery. Canfor reevaluates its future income tax assets on a regular basis.

ANTI-DUMPING DUTY EXPENSE – As discussed in the Lumber segment, Canfor expenses anti-dumping duties at an estimated rate, while cash deposits are made at the deposit rate specified by the US Department of Commerce (DOC). The actual rate applicable to Canfor's product shipment profile will be assessed by the DOC during their administrative review process. Canfor regularly reviews its estimate of the effective rate by applying the DOC's calculation methodology to updated sales and cost data. The difference between the estimated rate and the cash deposit rate is recorded as a long-term receivable on the balance sheet. A comprehensive discussion of the softwood lumber duty situation follows in the Risks and Uncertainties section.

CHANGES IN ACCOUNTING POLICIES

ASSET RETIREMENT OBLIGATIONS – Effective January 1, 2004, Canfor retroactively adopted the new recommendations of the CICA for asset retirement obligations, which require that such obligations be measured at fair value. As a result of adopting these new recommendations, Canfor's deferred reforestation liability decreased by $5.6 million, its net future income tax liability increased by $2.0 million and retained earnings increased by $3.6 million at December 31, 2003. The change in accounting for deferred reforestation liabilities resulted in a $2.2 million increase to the deferred reforestation expense in 2004 (2003 – nil). The new recommendations were not applied to retirement obligations for assets with indeterminate useful lives because sufficient information is not presently available to estimate a range of potential settlement dates for these obligations.

IMPAIRMENT OF LONG-LIVED ASSETS – The CICA has issued new recommendations, effective January 1, 2004, related to the recognition, measurement and disclosure of impairment of long-lived assets. An asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. An impairment loss is recognized when the carrying value is not recoverable and exceeds its fair value. Canfor regularly reviews its long-lived assets for impairment and has not experienced a material impact upon initial adoption of these recommendations.

SHIPPING AND HANDLING COSTS – Prior to January 1, 2004, Canfor, along with other companies in the forest industry, presented sales net of shipping and handling costs. Effective January 1, 2004, the CICA introduced new recommendations for the application of generally accepted accounting principles (GAAP), which, among other things, prohibit the use of "industry practice" and provide guidance on alternate sources to consult with when an issue is not specifically addressed by Canadian GAAP. As a result of applying the new standard, effective January 1, 2004, Canfor has reclassified shipping and handling costs and countervailing and anti-dumping duties to cost of sales. Also, in accordance with CICA Handbook Section 3400, Revenue, shipping and handling costs recovered from customers have been included in sales. Prior periods have been reclassified for comparability.

RISKS AND UNCERTAINTIES

Most companies in the forest industry in North America, including Canfor, face similar business risks and uncertainties. In addition to the specific issues discussed above under each reporting segment, risks and uncertainties fall into the general business areas of markets, international commodity prices, currency exchange rates, environmental issues, forest land base, government regulations and policy reform, and, for Canadian companies, trade barriers and Aboriginal land claims.

The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments listed above) cannot be quantified or predicted. However, Canfor does not foresee unmanageable adverse effects on its business operations from, and believes that it is well positioned to deal with, such matters as may arise.

ABORIGINAL ISSUES

In 1997, the Supreme Court of Canada in the Delgamuukw decision confirmed the continued existence of Aboriginal title and rights to lands continuously used or occupied by Aboriginal groups. As a result, Aboriginal groups have claimed Aboriginal title and rights over substantial portions of British Columbia, including areas where Canfor's forest tenures are situated. This decision has added to uncertainty regarding property rights in Canada (including forest tenure and other resource rights), particularly in much of British Columbia and other areas where treaties have not been concluded with Aboriginal groups. Due to the complexity of Aboriginal title issues, it is not expected that the issues of Aboriginal title in British Columbia will be resolved in the near future.

In November 2004, the Supreme Court of Canada in Haida v. British Columbia and Taku River v. British Columbia confirmed that the duty to consult with Aboriginal Groups arises when the Crown has knowledge, real or constructive, of the potential existence of an Aboriginal right or title and contemplates conduct that might adversely impact it.

Notably, the Court found that the duty to consult is a Crown obligation that does not extend to third parties such as forestry companies. While the Crown can delegate "procedural aspects" to third parties, legal responsibility rests with the Crown. Third parties cannot be held liable for the Crown's failure to consult. While the Crown is required to consult in good faith, Aboriginal consent is not required and Aboriginal groups do not have a veto over government decisions. While this decision provides improved clarity regarding the duty to consult, it may take some time for other related issues regarding consultation and accommodation that were not addressed by the Court to be resolved and for governments and Aboriginal groups to respond and adapt to the Court's direction. This may result in some continued uncertainty as further refinements of the duty to consult and accommodate are clarified. Canfor will continue to cooperate, communicate and exchange information and views with Aboriginal groups in order to foster good relationships and minimize risks to its tenures and operational plans.

CANADA/US SOFTWOOD LUMBER DISPUTE

BACKGROUND – The Canada/US Softwood Lumber Agreement expired on March 31, 2001 without being renewed or replaced. On April 2, 2001, countervailing duty (CVD) and anti-dumping (ADD) petitions covering certain softwood lumber products from Canada were filed with the US Department of Commerce (DOC) and the US International Trade Commission (ITC) by certain US industry and trade groups.

On May 16, 2002, the ITC published its final written determination on injury and stated that Canadian softwood lumber threatens material injury to the US industry. CVD at 18.79% was applied to all producers and ADD at 5.96% was applied specifically to Canfor. Cash deposits were required for shipments into the US, effective from the Final Order date of May 22, 2002. As a result of the ITC's ruling that Canadian lumber shipments only posed a threat of injury, in the second quarter of 2002 Canfor reversed all preliminary CVD and ADD duties accrued prior to May 22, 2002.

COUNTERVAILING DUTY CASE – From May 22, 2002 to March 9, 2004 Canfor has made cash deposits and expensed CVD at the required rate of 18.79%. Canfor filed for an expedited review of its CVD rate on March 31, 2003 to obtain a company-specific rate rather than make deposits under the national rate of 18.79%. The DOC completed this review process in February 2004 and the deposit rate was confirmed at 12.24% and became effective for shipments to the US after March 9, 2004.

However, the US has indicated that it will not conduct company specific administrative reviews for CVD, even for companies such as Canfor that have been granted expedited reviews and were actually paying deposits at the expedited review rate. Consequently, Canfor continued to expense CVD at the original preliminary deposit rate of 18.79%. On April 14, 2004 the Government of Canada commenced an appeal via the World Trade Organization (WTO) against the US decision not to conduct company-specific administrative reviews for expedited review companies such as Canfor, and not to complete expedited reviews on a timely basis for companies such as Slocan. This appeal will likely take at least a year to complete.

As a result of a NAFTA Panel ruling in September 2003 rejecting the use of cross-border benchmarks, in January 2004 the DOC announced that the national CVD rate would be reduced to 13.23% from 18.79%. On June 7, 2004, the NAFTA Panel found various errors in the methodology the DOC used to arrive at the 13.23% rate and it remanded the matter to the DOC to correct those errors. On July 30, 2004, the DOC further revised this figure to 7.82%. This remand result was also challenged, and on December 1, 2004 the NAFTA CVD panel remanded to the DOC for a third time. On January 25, 2005, the DOC further revised the figure down to 1.8%. Canada has commenced a further challenge, as it believes the rate should be less than 1.0%. These rates do no not affect the cash deposit rate.

On June 3, 2004 the DOC released their preliminary results of a countrywide CVD administrative review for the period from May 22, 2002 to March 31, 2003 (POR1). This rate was calculated to be 9.24% and was applicable for all non-zero rate producers including those, like Canfor, that had been granted company-specific cash deposit rates. Canfor made no adjustment to reflect this lower preliminary rate because of uncertainty surrounding the outcome of anticipated challenges and appeals. On December 14, 2004 the DOC released its final countrywide assessment rate for CVD for POR1 to be 17.18%, considerably higher than the preliminary rate announced in early June. The main reason for the increase is that the DOC changed from using Maritime log prices as the benchmark to using cross-border prices. This assessment rate of 17.18% is to be used to determine the actual duties due for entries made during POR1. The cash deposit rate for shipments made after December 20, 2004 was also changed to this rate. Canfor has reduced the CVD expense accrual for POR1 for the difference between the deposit rate of 18.79% and the final assessed rate of 17.18%, and is expensing at the 17.18% rate for shipments subsequent to December 20, 2004. Canfor is appealing Commerce's decision not to permit Canfor to have a company specific review to calculate a company specific rate for Canfor that would determine its assessment rate for POR1 entries and establish its deposit rate going forward.

Canfor's subsidiary in Quebec, Daaquam, had a preliminary company-specific CVD rate of 2.99% as a result of the zero rate review process. On October 18, 2004 the DOC announced that Daaquam was not a zero rated company and would have the countrywide rate applied to all US entries. This DOC decision is under appeal as part of the Quebec border mill group action. As a result of the DOC October 18, 2004 decision and the December 14, 2004 determination, Canfor has increased the CVD accrual to recognize the Daaquam CVD liability at the countrywide rate of 17.18% for the period since Canfor's acquisition of Daaquam in May 2003.

The DOC second administrative review, which is currently under way, will determine the assessment of CVD duties for the period April 1, 2003 to March 31, 2004 as well as the future cash deposit rate. Preliminary review results were due January 31, 2005 and final results are due June 7, 2005 but can be extended until as late as December 2, 2005. Canfor has requested a company specific rate in the second administrative review to protect its right to such a rate.

ANTI-DUMPING CASE – In the case of the ADD, cash deposits have been made since May 22, 2002 at the required rate of 5.96%. Canfor regularly reviews its estimate of the ADD expense rate by applying the DOC's methodology to updated sales and cost data as it became available. The final rate will be confirmed when an official administrative review is complete for the respective periods. The first administrative review of the ADD order has now been completed with the final rates announced in December 2004. This has led to a change in the cash deposit rate on December 21, 2004 from the preliminary rate of 5.96% to 1.83%. The latter rate is a weighted average of Canfor and Slocan final rates from POR1, as was agreed with the DOC following a changed circumstances review initiated as a result of the merger. The Canfor rate was 2.06% and Slocan was 1.37%. These individual company assessment rates are

to be applied to the entries for the period May 22, 2002 to April 30, 2003. In December 2004, Canfor reduced its expense accrual for POR1 to reflect these announced final rates.

The second administrative review is now in process and Canfor's preliminary estimates indicate an ADD rate of less than 2%.

THREAT OF INJURY DETERMINATION – The NAFTA Panel hearing the appeal of the ITC finding that Canadian imports threatened injury to the US softwood lumber industry has ruled three times that the ITC determination violates US law and ordered the ITC to issue a revised determination. The second decision by the Panel, which rejected the ITC's initial remand determination, was issued April 29, 2004.

On August 31, 2004 a NAFTA Panel reaffirmed its prior rulings that the ITC had failed to prove that Canadian lumber imports posed a threat of material injury to the US industry. The Panel gave the ITC ten days to make a new determination consistent with the Panel's decision. On September 10, 2004 the ITC complied with this instruction and issued a new determination finding that the US softwood lumber industry is not threatened with material injury by reason of Canadian imports. As expected, in November the US appealed the NAFTA Panel's decision to a special Extraordinary Challenge Committee (ECC) under the NAFTA, which will extend the case to March 2005 or beyond. If the ECC upholds the NAFTA Panel's decision, the US anti-dumping and countervailing duty orders would be terminated as a result of the ITC's new determination.

As at December 31, 2004, Canfor (including Slocan) had paid combined duty deposits of US $538 million (ADD of $154 million and CVD of $384 million) since the inception of CVD and ADD in May 2002. These duties would be eligible for refund if the ITC determination that the US softwood lumber industry is not threatened with material injury is upheld by the ECC, subject to the outcome of any litigation or other action on refunds that may arise.

The DOC officially announced in the Federal Register that it would be assessing duties in accordance with the rates that it determined in the reviews, which legal counsel advise would result in the excess ADD deposits being recoverable. Notwithstanding the final rates established in the investigations, the final liability for the assessment of CVD and ADD will not be determined until each annual administrative review process is complete and all subsequent challenges or appeals are finalized.

The Company and other Canadian forest product companies, the Canadian Federal Government and Canadian provincial governments (Canadian Interests) categorically deny the US allegations and strongly disagree with the final countervailing and dumping determinations made by the ITC and DOC. Canadian Interests continue to aggressively defend the Canadian industry in this US trade dispute. Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO.

NAFTA LAWSUIT – On July 11, 2002, Canfor filed a Notice of Arbitration and Statement of Claim against the Government of the United States for damages under NAFTA as a result of the DOC's preliminary and final determinations in the countervailing and anti-dumping proceedings. Canfor has asserted that the actions of the US Government have amounted to breaches of certain provisions of NAFTA, including the failure to provide Canfor with fair and equitable treatment in accordance with international law.

The Statement of Claim seeks damages for not less than US$250 million resulting from the actions of the US Government in issuing the preliminary and final CVD and ADD against Canfor. Canfor believes that the DOC has been arbitrary, discriminatory and capricious in making the preliminary and final CVD and ADD determinations.

Canfor and the US Government have selected a three-member panel, which will hear the dispute. In January 2004, the Panel ruled on a number of preliminary matters, including setting Washington DC as the legal jurisdiction of the hearing, requiring the US to file a Statement of Defence, and requiring a jurisdictional hearing be held. The jurisdictional hearing was held in Washington, D.C. in December 2004 to determine whether the panel had jurisdiction to hear Canfor's claim. A decision from the panel is expected in early 2005.

ENVIRONMENTAL CERTIFICATION

Customers of forest products increasingly require assurances that products purchased are derived from well-managed forests. Canfor has responded by implementing a comprehensive third-party sustainable forest management (SFM) certification strategy to verify that its forest operations are well managed.

Canfor retains an International Organization for Standardization ("ISO") 14001 certification of its environmental management system for its forest operations, first obtained in 1999 and re-certified as required for subsequent 3-year terms. In addition, Canfor retains certification under the Canadian Standards Association (CSA) standard for sustainable forest management (CAN/CSA Z809) for its Forest Management Agreement (FMA) area at Grande Prairie, Alberta, for its Tree Farm Licences (TFL) at Chetwynd, Englewood, and Prince George, British Columbia and for its Forest Licences at Fort St John and Houston, British Columbia. Canfor also maintains certification of part of its forest operations in the Prince George and Quesnel timber supply areas to the Sustainable Forestry Initiative® (SFI) standard. The SFI program was created by the American Forest & Paper Association.

Canfor is committed to having sustainable forest management certification in place for all of its tenures.

ENVIRONMENTAL ISSUES

The Species at Risk Act (SARA) was proclaimed by the Government of Canada in June 2003. The purpose of the Act is to prevent wildlife species present in Canada for at least 50 years from becoming extirpated or becoming extinct, to provide for the recovery of wildlife species that are extirpated, endangered or threatened as a result of human activity, and encourage the management of other species to prevent them from becoming at risk. The economic implications of SARA are potential reductions in timber harvests and increases in harvesting costs, none of which can be predicted at this time

In December 2002 the Government of Canada ratified the Kyoto Agreement. The Climate Change Plan for Canada, which sets out Canada's Kyoto implementation strategy, indicates that federal and provincial energy and environment ministers have endorsed the principle that companies that take early action should not be disadvantaged by an output based emissions regime. Canfor was an early signatory to the Climate Change Voluntary Challenge and Registry Program, a federal program introduced in 1997 to encourage companies to inventory and track their greenhouse gas emissions (GHGs) and take actions to stabilize and reduce those emissions. Canfor, including the Slocan operations acquired April 1, 2004, has implemented projects that have improved energy efficiency and displaced purchased fossil fuel energy with renewable biomass energy, thereby reducing GHG emissions both on absolute and per unit of production bases. Canfor has opportunities to further reduce GHG emissions particularly through increased utilization of sawmill wood residuals. In November 2003, the Forest Products Association of Canada (FPAC), on behalf of Canfor and other forest products companies, signed a "Memorandum of Understanding Respecting Action on Climate Change" (MOU) with the Federal Government. The MOU establishes a framework for upcoming negotiations of a Pulp and Paper Sector covenant with the Federal Government. The MOU specifies that, "the Government of Canada will work with FPAC Parties and other industries to design a system that will not disadvantage those firms that have taken early action to reduce greenhouse gas emissions." The covenant will establish a GHG emissions reduction requirement equivalent to, on average, a reduction of 15% over 2008 to 2012 (the first Kyoto commitment period). Canfor believes that its pulp and paper mills are well-positioned to comply with the likely covenant requirements.

Canada-wide standards have been established by the Government of Canada for respirable particulate (PM 2.5) and ozone levels in the ambient air. The standard will be effective in 2010 following additional technical, scientific and economic analysis required to be completed by the end of 2005. The PM 2.5 standard could require future source reductions of particulate emissions from Canfor's pulp, paper and sawmill facilities, the cost of which cannot yet be determined.

With the acquisition of Slocan, Canfor has four remaining 'Tier 1' burners in British Columbia, which are now regulated by the Ministry of Water, Land and Air Protection for phase out by December 31, 2007. One of the four burners (along with up to two other non Tier 1 Canfor burners) is proposed to be shut down in 2005 with planned completion of the Prince George Pulp and Paper Co-generation Project, as discussed in the Pulp and Paper segment. Canfor is diligently seeking economically viable solutions for the three remaining Tier 1 burners including wood-fuelled sawmill energy systems, manufacture of wood pellets and simultaneous electricity and heat co-generation.

FINANCIAL MARKET RISK

Demand for forest products, both pulp and paper and wood products, is closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. Canfor, like the majority of the Canadian forest products industry, competes in a global market and the majority of its products are sold in US dollars. Consequently, foreign currency relationships pose a significant uncertainty. Shifts in these relationships can have a major impact, positive or negative, on profits from operations. The strengthening of the Canadian dollar relative to the US dollar in the last year has had a negative impact on sales and profits from operations. However, by maintaining a substantial proportion of its debt in US dollars, Canfor has partially mitigated the impact of currency fluctuations.

FINANCIAL INSTRUMENTS – Canfor, from time to time, uses derivative markets to hedge future movements of exchange rates or commodity prices. During 2004, forward contracts totaling US $20 million were exercised and an after-tax gain of $1.4 million was realized (2003 – after-tax gain of $24.6 million realized on forward contracts totaling US $160 million). No forward contracts were outstanding at December 31, 2004.

Canfor also uses financial instruments to reduce its exposure to risk associated with lumber prices and energy costs. There were 195 lumber futures contracts outstanding at December 31, 2004, which had an unrealized loss of $0.1 million. Commodity swaps hedging future natural gas purchases of 2.6 million Gigajoules, at an average price of $6.26 per Gigajoule, were outstanding at December 31, 2004. There was an unrealized loss of $0.1 million on these swaps at December 31, 2004.

Since Canfor's long-term debt is primarily fixed in rate, there is no direct impact to net income when interest rates change.

SENSITIVITIES – The sensitivity of Canfor's results to currency swings and prices for its principal products, when operating at full capacity, is estimated to be approximately as follows:

(millions of dollars)	Impact on after-tax earnings
Canadian dollar – US $0.01 change per Canadian dollar (net of revaluation of US$ long-term debt)	$ 22.6
Lumber – US $10 change per Mfbm	36.3
Duties – 1% change in combined duty rate	10.5
Plywood – US $10 change per Msf 3/8"	2.8
OSB – US $10 change per Msf 3/8" (excluding future earnings from OSB limited partnership)	3.8
Pulp – US $10 change per tonne	7.8
Log costs – Cdn $1 change per cubic metre	13.7

LABOUR AGREEMENTS

The labour agreement with the USWA (United Steelworkers of America), formerly the Industrial, Wood and Allied Workers of Canada, covering their BC Interior certified solid wood operations that expired in June 2003 was ratified by all of Canfor's BC Interior sawmill operations in 2004. Negotiations were also successfully concluded with the Pulp, Paper and Woodworkers of Canada (PPWC) at North Central Plywood and Mackenzie. The agreements provide for wage increases totaling 11% over a six-year term, expiring June 30, 2009. Most of the agreements also contain a provision for a bonus plan based on a "return on capital employed" formula. There were very few benefit plan improvements included in the agreements and most contain benefit plan changes that will either control or minimize some of the future employer-paid benefit plan premium cost increases. There are also provisions for increased employee (ongoing) and employer (2 years) pension plan contributions as well as increased employee and employer long-term disability premium contributions.

The USWA contract with the Hines Creek, Alberta operation and the CEP (Communications, Energy and Paperworkers Union) contract with the Grande Prairie, Alberta operation expired at the end of February 2004. The Hines Creek contract was renewed in the spring of 2004 and the agreement, which expires in February 2010, is patterned after the BC solid wood agreement, as described above. As previously mentioned, the Hines Creek sawmill will close by mid 2005. Negotiations for the renewal of the Grande Prairie contract are ongoing.

On the Coast, a government-appointed arbitrator handed down a binding contract settlement covering the Forest Industrial Relations (FIR) member companies and the USWA. The settlement, which affected the Englewood Logging operation as a FIR member operation and the Panel and Fibre operation (through a previous "me-too" agreement with the USWA), included wage

increases totaling 6% over a four-year term expiring June 15, 2007. The settlement gave employers the ability to unilaterally implement alternate shift schedules, without overtime or premium penalties, within a flexible 40-hour work week averaging period and included employer cost reduction provisions involving travel time payments (logging) and vacation scheduling requirements. The bonus plan, benefit plan and pension plan provisions mirror those of the Interior agreements.

PROVINCIAL FOREST POLICY REFORM

In March 2003, the Government of British Columbia (the Crown) introduced the Forestry Revitalization Plan (the Plan) that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including Canfor, are required to return 20% of their Annual Allowable Cut (AAC) from replaceable tenures to the Crown. The Plan states that approximately half of this volume will be redistributed to create opportunities for woodlots, community forests and First Nations and the other half will be available for public auction. The Crown has acknowledged that licensees will be fairly compensated for the return of tenure and related infrastructure costs such as roads and bridges.

The effect of the timber take-back will result in a reduction of approximately 2.4 million cubic metres to Canfor's existing allowable annual cut on its replaceable tenures. While the legislation taking back the 20% was passed in March 2003, the government has effectively loaned back the volume until the Minister orders that it is needed. Canfor has worked with the government to identify those licenses and operating areas that are to be returned to the Crown. The allocation of the take-back among the tenures held by Canfor under this legislation was determined by Canfor and the government in December 2004 and is to take effect in three stages: in December 2004, in March 2005 and in March 2006. The amount of compensation to be made to Canfor has not yet been determined.

The effect of the Plan on Canfor's financial position and results of operations cannot be determined at this time. Canfor will record the effects of the Plan at the time that the amounts to be recorded are estimable. However, Canfor does not expect that the take-back will adversely affect its ability to obtain adequate timber supplies for its operations or materially affect the costs of obtaining those supplies.

OUTSTANDING SHARE DATA

At February 8, 2005, there were 143,316,480 common shares issued and outstanding. In addition, at February 8, 2005, there were 477,137 stock options outstanding with prices ranging from $7.57 to $11.80 per share.

Additional information about the Company, including its 2004 Annual Information Form, is available at www.sedar.com or at www.canfor.com.

SUBSIDIARY COMPANIES (Wholly-owned)

OPERATING COMPANIES

Canadian Forest Products Ltd.
Canfor Europe
Canfor Japan Corporation
Daaquam Maine Inc.
Canfor Panel and Fibre Marketing Ltd.
Canfor Pulp and Paper Marketing Ltd.
Canfor U.S.A. Corporation
Canfor Wood Products Marketing Ltd.
Genus Resource Management Technologies Inc.
Howe Sound Transportation Company Limited
Nanika Timber Limited
Bois Daaquam Inc.
Produits Forestiers Anticosti Inc.
Canfor Georgia-Pacific Japan Corporation

INACTIVE/HOLDING COMPANIES

317231 British Columbia Ltd.
615157 B.C. Ltd.
9129-1211 Quebec Inc.
B.C. Chemicals Ltd.
Canfor Hong Kong Corporation
Canfor Limited
Canfor US Holdings Inc.
Eburne Sawmills Limited
Northwood Properties Limited
Willowcale Storage Inc.

PARTNERSHIPS

Canfor - LP OSB Limited Partnership (49.99% interest)
Canfor - LP OSB G.P. Corporation (50% interest)
Howe Sound Pulp and Paper Limited Partnership (49.99% interest)
HSPP General Partner Ltd. (50% interest)
Seaboard General Partnership (19.9% interest)

INVESTMENTS

Kyahwood Forest Products
Lakeland Mills Ltd.
The Pas Lumber Company Ltd.
Vernon Seed Orchard Co.

DEFINITIONS OF SELECTED FINANCIAL TERMS

Book Value per Share is the shareholders' equity, including the equity component of the convertible subordinated debentures, at the end of the year, divided by the number of common shares outstanding at the end of the year plus the number of common shares exchangeable for the convertible subordinated debentures.

Capital Employed consists of the funds invested or retained in Canfor in the form of shares or liabilities. It is composed of unpresented cheques, current bank loans (net of cash and temporary investments), current portion of long-term debt, long-term debt, future income taxes arising from timing differences and shareholders' equity. Long-term liabilities and other accruals such as deferred reforestation costs, unfunded pension and post employment benefits, countervailing and anti-dumping duty provisions and unrealized foreign exchange losses on long-term debt are specifically excluded because they do not represent borrowed funds or funds invested by shareholders.

Earnings Before Interest, Taxes and Amortization (EBITDA) represents operating income plus amortization.

Net Debt is total debt less cash and temporary investments.

Net Income per Common Share is calculated as described in Note 20 to the Consolidated Financial Statements.

Return on Assets is equal to net income plus interest, after tax, divided by the average of the total assets at the beginning and end of the year.

Return on Capital Employed is equal to net income plus interest, after tax, divided by the average of the capital employed during of the year.

Return on Common Shareholders' Equity is equal to net income for the year, divided by the average of total shareholders' equity at the beginning and end of the year.

MANAGEMENT'S RESPONSIBILITY

The information and representations in this Annual Report are the responsibility of Management and have been approved by the Board of Directors. The consolidated financial statements were prepared by Management in accordance with accounting principles generally accepted in Canada and, where necessary, reflect Management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material. The financial information presented throughout this report is consistent with that contained in the consolidated financial statements.

Canfor maintains systems of internal accounting controls, policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of its assets. The Internal Audit Department performs independent reviews of the accounting records and related procedures. The Internal Audit Department reports its findings and recommendations both to Management and the Audit Committee.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and Management's Discussion and Analysis. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of 4 Directors who are not employees of the company. The Committee meets periodically throughout the year with Management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal accounting controls, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements and Management's Discussion and Analysis have been reviewed by the Audit Committee, which recommended their approval by the Board of Directors. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, whose report follows.

February 8, 2005

J. Shepherd

James A. Shepherd
President and
Chief Executive Officer

Terry Hodgins

Terry D. Hodgins
Vice-President and
Treasurer

AUDITOR'S REPORT

To the Shareholders of Canfor Corporation

We have audited the consolidated balance sheets of Canfor Corporation as at December 31, 2004 and December 31, 2003, and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and December 31, 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, B.C.
February 8, 2005

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Year ended December 31 (millions of dollars)	2004	2003
Sales	$ 4,341.9	$ 2,662.6
Costs and expenses		
Manufacturing and product costs	2,611.0	1,932.7
Freight and other distribution costs	657.5	420.5
Countervailing and anti-dumping duties (Note 16)	290.2	146.6
Amortization	155.2	109.8
Selling and administration	70.0	55.8
	3,783.9	2,665.4
Restructuring costs (Note 17)	36.5	-
Operating income (loss) from continuing operations	521.5	(2.8)
Equity income (loss) (Note 5)	11.3	(0.4)
Interest expense (Note 18)	(50.4)	(50.5)
Foreign exchange gain on long-term debt	48.7	110.9
Other income (expense)	(3.8)	24.9
Net income from continuing operations before income taxes	527.3	82.1
Income tax recovery (expense) (Note 19)	(106.4)	3.7
Net income from continuing operations	420.9	85.8
Net income from discontinued operation net of income taxes (Note 3)	-	67.5
Net income	$ 420.9	$ 153.3
Per common share (in dollars) (Note 20)		
Net income from continuing operations		
Basic	$ 3.45	$ 0.98
Diluted	$ 3.22	$ 0.92
Net income		
Basic	$ 3.45	$ 1.81
Diluted	$ 3.22	$ 1.65
Retained earnings, beginning of year – as reported	$ 273.4	$ 136.7
Cumulative effect of change in accounting policy (Note 2)	3.6	3.6
Retained earnings, beginning of year – as restated	277.0	140.3
Net income for the year	420.9	153.3
Common share dividends	-	(10.6)
Premium paid on common shares purchased for cancellation (Note 13)	(0.6)	-
Interest on equity component of convertible subordinated debentures, net of income taxes (Note 10)	(5.4)	(6.0)
Retained earnings, end of year	$ 691.9	$ 277.0

Year ended December 31 (millions of dollars)	2004	2003
Cash generated from (used in)		
Operating activities		
Net income from continuing operations	$ 420.9	$ 85.8
Items not affecting cash:		
Amortization	155.2	109.8
Income taxes	98.9	(8.3)
Unrealized foreign exchange gain on long-term debt	(46.7)	(112.4)
Employee future benefits	25.1	8.9
Adjustment to accrued duties	3.6	(25.8)
Long-term portion of deferred reforestation	2.9	(7.9)
Loss (Gain) on disposal of assets	3.2	(23.8)
Equity loss (income) of affiliated companies, net of tax	(7.2)	0.7
Other	(2.1)	1.7
	653.8	28.7
Increase (decrease) in non-cash working capital (Note 21)	59.6	(30.0)
	713.4	(1.3)
Financing activities		
Proceeds from long-term debt	311.6	4.8
Repayment of long-term debt	(269.6)	(57.7)
Net proceeds on issuance of common shares (Note 13)	9.5	0.9
Common shares purchased for cancellation (Note 13)	(1.5)	-
Dividends paid to common shareholders	-	(10.6)
Interest on convertible debentures, net of taxes	(5.4)	(6.0)
Other	(0.8)	(0.4)
	43.8	(69.0)
Investing activities		
Purchase of property, plant, equipment and timber	(184.5)	(123.5)
Business acquisition costs, net of cash acquired (Note 3)	(38.2)	(30.6)
Proceeds from sale of property, plant and equipment	10.6	28.3
Other	(4.0)	(5.4)
	(216.1)	(131.2)
Increase (decrease) in net cash from continuing operations	541.1	(201.5)
Cash generated from discontinued operation (Note 3)	-	121.2
Increase (decrease) in net cash	541.1	(80.3)
Net cash (short-term indebtedness) at beginning of year	(57.4)	22.9
Net cash (short-term indebtedness) at end of year	$ 483.7	$ (57.4)
Net cash (short-term indebtedness) comprises		
Cash and temporary investments	$ 488.2	$ 24.7
Operating bank loans	(4.5)	(82.1)
	$ 483.7	$ (57.4)

Non-cash investing and financing activities (Notes 3 and 10)

Interest paid in 2004 was $56.3 million (2003 – $59.2 million) and taxes paid were $5.8 million (2003 – $5.6 million).

CONSOLIDATED BALANCE SHEETS

As at December 31 (millions of dollars)	2004	2003
ASSETS		
Current assets		
Cash	$ 40.2	$ 24.7
Temporary investments	448.0	-
Accounts receivable		
Trade	240.4	173.2
Other	63.8	86.2
Income taxes recoverable	14.7	1.4
Future income taxes (Note 19)	32.5	21.9
Inventories (Note 4)	635.7	445.0
Prepaid expenses	41.3	24.1
Total current assets	1,516.6	776.5
Long-term investments and other (Note 5)	197.4	100.5
Property, plant, equipment and timber (Note 6)	2,219.2	1,443.5
Deferred charges (Note 7)	94.9	126.8
	$ 4,028.1	$ 2,447.3
LIABILITIES		
Current liabilities		
Operating bank loans (Note 8)	$ 4.5	$ 82.1
Accounts payable and accrued liabilities (Note 8)	527.8	343.4
Current portion of long-term debt (Note 9)	68.1	57.2
Current portion of deferred reforestation (Note 12)	50.3	39.6
Total current liabilities	650.7	522.3
Long-term debt (Note 9)	660.5	478.0
Other accruals and provisions (Note 11)	223.7	83.0
Future income taxes, net (Note 19)	499.2	175.7
Deferred credit (Note 24)	27.2	95.7
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	1,275.7	659.2
Convertible subordinated debentures (Note 10)	-	155.0
Retained earnings	691.9	277.0
Foreign exchange translation adjustment	(0.8)	1.4
Total shareholders' equity	1,966.8	1,092.6
	$ 4,028.1	$ 2,447.3

Commitments and contingencies (Note 27)
Subsequent event (Note 24)

APPROVED BY THE BOARD

R. Laird Cliff

Director, R.L. Cliff

J. Shepherd

Director, J.A. Shepherd

December 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

These financial statements include the accounts of Canfor Corporation (the Company) and its subsidiary companies, hereinafter referred to as "Canfor". Investments over which the Company exercises significant influence are accounted for using the equity method, in which the original investment is recorded at cost and is subsequently adjusted for the Company's share of post acquisition earnings. Joint ventures are proportionately consolidated.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates, however, management does not believe it is likely that such differences will materially affect Canfor's financial position.

Significant areas requiring the use of management estimates are deferred reforestation costs, inventory valuations, amortization rates, accrued anti-dumping and countervailing duties and pension and other benefit plan assumptions.

TEMPORARY INVESTMENTS

Temporary investments comprise bankers acceptances, commercial paper and other short-term instruments with maturities of three months or less, and are valued at cost, which approximates fair value.

VALUATION OF INVENTORIES

Inventories of lumber, panels, pulp and kraft paper are valued at the lower of average cost and net realizable value. Logs and chips are valued at average cost or the greater of net realizable value and replacement cost if lower than average cost. Processing materials and supplies are valued at the lower of average cost and replacement cost.

PROPERTY PLANT, EQUIPMENT AND TIMBER

Canfor capitalizes the costs of major replacements, extensions and improvements to plant and equipment, together with related interest incurred during the construction period on major projects.

Assets are amortized over the following estimated productive lives:

Buildings	10 to 50 years
Mobile equipment	3 to 20 years
Pulp and kraft paper machinery and equipment	20 years
Sawmill machinery and equipment	5 to 15 years
Oriented strand board machinery and equipment	20 years
Plywood machinery and equipment	5 to 15 years
Logging machinery and equipment	4 to 20 years
Logging roads and bridges	5 to 20 years
Other machinery and equipment	3 to 20 years

Amortization of logging and manufacturing assets is calculated on a unit of production basis. Amortization of plant and equipment not employed in logging and manufacturing is calculated on a straight-line basis.

Logging roads are amortized on a basis related to the volume of timber harvested. For those tree farm licenses and timber licenses which are renewable with the Province of British Columbia, amounts capitalized as timber are amortized over the estimated tree growth cycle as volume is harvested. Non-renewable licenses are amortized over the period of the license.

DEFERRED CHARGES

Software development costs relating to major systems are deferred and amortized over periods not longer than five years.

DEFERRED REFORESTATION

Canfor accrues the undiscounted cost of the reforestation required under its timber harvest agreements at the time that the timber is harvested. The liability is re-measured at fair value at the end of the fiscal period, as discussed in Note 2.

EMPLOYEE BENEFIT PLANS

Canfor has various defined benefit and defined contribution plans that provide both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees.

Canfor accrues the costs and related obligations of the defined benefit pension and other retirement benefit plans using the projected benefit actuarial method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) arise from the difference between the actual and expected long-term rates of return on plan assets for a period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees, which is 15 years for both pension and other benefit plans. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. On January 1, 2000, Canfor adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the accounting for pensions and other post employment benefits using the prospective application method. Canfor is amortizing the transitional obligation on a straight-line basis over 15 years, which was the average remaining service period of employees expected to receive benefits under the benefit plan as of January 1, 2000.

Pension expense for the defined contribution plans is based on a percentage of employees' salaries or on a contribution required under collective agreements.

For hourly employees covered by forest industry union defined benefit pension plans, earnings are charged with Canfor's contributions required under the collective agreements.

REVENUE RECOGNITION

Canfor's revenues are derived from the following major product lines: lumber, pulp, kraft paper, panel products and raw logs. Revenue is recognized from product sales when persuasive evidence of a sale exists, the sales price is fixed and determinable, goods have been delivered and collectibility is reasonably assured. Sales are reported net of discounts and allowances. Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by the company are reported as cost of sales. Lumber duties are recorded as a component of costs of sales.

FOREIGN CURRENCY TRANSLATION

Effective January 1, 2002, the Canadian Institute of Chartered Accountants amended its policy for foreign currency translation to eliminate the deferral and amortization method of accounting for unrealized translation gains and losses on long-term monetary assets and liabilities. As permitted by the revised policy, Canfor continued to hedge its US dollar long-term debt with its US dollar revenue streams, and, therefore, no change in accounting for the unrealized translation loss on long-term debt was required. However, on January 1, 2003, Canfor made the decision to terminate this hedging relationship, and, as a result, exchange gains and losses on long-term debt after January 1, 2003 have been recognized in income in the current year. Exchange losses deferred prior to Canfor's termination of this hedging relationship will be recognized into income in the same periods as the corresponding debt repayments (Note 9).

The majority of Canfor's sales and long-term debt are denominated in foreign currencies. Foreign currencies are translated into Canadian dollars using the temporal method as follows: monetary assets and liabilities at year-end exchange rates; non-monetary assets and liabilities at historical rates; and revenues and expenses at exchange rates prevailing at the time the transaction occurs.

Exchange gains and losses are reflected in income immediately.

Canfor's foreign operations are considered to be self-sustaining and the assets and liabilities are translated using the current rate method. The translation gain or loss is included as a component of shareholders' equity.

INCOME TAXES

Canfor accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the temporary differences between the accounting basis and the tax basis of assets and liabilities. These temporary differences are measured using the current tax rates and laws expected to apply when these differences reverse. Future tax benefits, such as capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in income tax rates is recognized in earnings in the period that the substantive enactment date of the change occurs.

DERIVATIVE FINANCIAL INSTRUMENTS

Canfor utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange and commodity price risk. For example, from time to time, Canfor purchases foreign exchange forward contracts to hedge anticipated sales to customers in the United States and the related accounts receivable and also enters into swap transactions to reduce its exposure to fluctuating natural gas prices. Canfor's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Canfor formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities or to specific firm commitments or forecasted transactions. Canfor also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Gains and losses on forward foreign exchange contracts used to hedge US dollar denominated sales are recognized as an adjustment to revenue at the time that the contract is exercised. Gains and losses on natural gas swaps are recognized as an adjustment to manufacturing costs when the contracts are settled.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment when the occurrence of events or changes in circumstances indicate that the carrying value of the assets may not be recoverable, as measured by comparison of their net book value to the estimated future cash flows generated by their use. Impaired assets are recorded at fair value, determined principally using discounted future cash flows expected from their use and eventual disposition.

STOCK-BASED COMPENSATION PLANS

Canfor has three stock-based compensation plans, as described in Note 14.

When stock options are granted to employees under the Stock Option Performance Plan, compensation expense is recorded based on a fair value method of accounting (Note 2). The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is amortized over their vesting periods. Cash consideration received from employees when they exercise the options is credited to share capital.

Compensation expense is recognized for Canfor's contributions to the Employee Share Purchase Plan when they are made.

Compensation expense is recognized for Canfor's Deferred Share Unit Plan when the deferred share units are granted, and changes in market value of the underlying shares are reflected in earnings at the end of each period.

2. CHANGE IN ACCOUNTING POLICIES

ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2004, Canfor retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) for asset retirement obligations, which require that such obligations be measured at fair value. As a result of adopting these new recommendations, Canfor's deferred reforestation liability decreased by $5.6 million, the net future income tax liability increased by $2.0 million and retained earnings increased by $3.6 million at December 31, 2003. The change in accounting for deferred reforestation resulted in a $2.2 million increase to the deferred reforestation expense in 2004 (2003 – nil). The new recommendations were not applied to retirement obligations for assets with indeterminate useful lives because sufficient information is not presently available to estimate a range of potential settlement dates for the obligations.

SHIPPING AND HANDLING COSTS

Prior to January 1, 2004, Canfor, along with other companies in the forest industry, presented sales net of shipping and handling costs. Effective January 1, 2004, the CICA introduced new recommendations for the application of generally accepted accounting principles (GAAP), which, among other things, prohibit the use of "industry practice" and provide guidance on alternate sources to consult with when an issue is not specifically addressed by Canadian GAAP. As a result of applying the new standard, effective January 1, 2004, Canfor has reclassified shipping and handling costs and countervailing and anti-dumping duties to cost of sales. Also in accordance with CICA Handbook section 3400, Revenue, shipping and handling costs recovered from customers have been included in sales. Prior periods have been reclassified for comparability.

STOCK-BASED COMPENSATION

Prior to January 1, 2003, as permitted by Canadian generally accepted accounting principles, Canfor had elected not to use the fair value based method of accounting for stock options because of its limited use of stock-based compensation. Pro forma net income and earnings per share disclosure was provided for stock options granted after January 1, 2002, the date of initial adoption of Section 3870 Stock-based Compensation and Other Stock-based Payments.

In October 2003, the Canadian Institute of Chartered Accountants amended its recommendations relating to Section 3870 to require that all stock-based compensation be expensed when granted, using a fair value based method of accounting. Canfor has elected to adopt the new recommendations on a prospective basis, effective January 1, 2003, for all stock-based compensation granted after January 1, 2003. No new stock options were granted in 2003 and 2004.

3. ACQUISITIONS AND DIVESTITURES

ACQUISITION OF SLOCAN FOREST PRODUCTS LTD.

On April 1, 2004, Canfor and Slocan Forest Products Ltd. (Slocan) completed the combination of their businesses after having obtained the approval of Slocan shareholders on March 25, 2004 and of the Supreme Court of British Columbia on March 30, 2004. Under the plan of arrangement, Canfor acquired all of the issued and outstanding shares of Slocan in exchange for the issuance to Slocan shareholders of 1.3147 Canfor shares for each Slocan share held by them. 49.3 million Canfor shares were issued and were valued at $9.18 per share, which was the average market price of the shares shortly before and after the date that the terms of the combination were agreed to and announced.

Slocan was amalgamated with Canadian Forest Products Ltd., Canfor's principal operating subsidiary, on April 1, 2004. The acquisition has been accounted for using the purchase method, in which the purchase consideration was allocated to the estimated fair values of the assets and liabilities assumed as of April 1, 2004. The amounts assigned to the net assets and liabilities acquired was based on their estimated fair values at April 1, 2004, as follows:

(millions of dollars)

Net assets acquired	
Cash	$ 20.5
Non-cash working capital	162.7
Property, plant, equipment and timber	761.4
Other assets	20.1
Long-term debt	(209.7)
Other long-term liabilities	(60.7)
Future income tax liabilities	(182.7)
Fair value of net assets acquired	$ 511.6
Consideration paid	
Common shares issued to Slocan shareholders	$ 452.9
Make-whole penalty on Slocan's long-term debt	28.6
Transaction costs	30.1
	$ 511.6

In order to address the concerns of the federal Commissioner of Competition (the Commissioner) under the Competition Act (Canada) regarding the impact of the combination on competition, Canfor entered into a Consent Agreement, as required by the Commissioner, pursuant to which the Company was directed to divest the sawmill located at Fort St James, British Columbia and certain associated harvesting rights. A sales agreement was entered into on December 22, 2004, and the sale is expected to close on March 1, 2005, subject to the approval of the Commissioner and other customary approvals, filings and conditions. Proceeds of $39 million, plus the value of inventory on the closing date, are expected to be received and the transaction is not expected to result in a significant gain or loss for accounting purposes. Due to the size of the Fort St James operation in relation to Canfor's lumber segment, it has not been accounted for as a discontinued operation.

ACQUISITION OF DAAQUAM LUMBER INC. AND PRODUITS FORESTIERS ANTICOSTI INC.

On May 27, 2003, Canfor acquired 100% of the shares of Daaquam Lumber Inc. and Produits Forestiers Anticosti Inc., two privately owned lumber manufacturing and timber harvesting companies based in Quebec. A cash payment of $30.6 million was paid on closing, $5 million was paid on the first anniversary of the closing date and another $5 million is payable on the second anniversary of the closing date. An additional payment will be made to the vendors if a specified earnings target is achieved in the three-year period following the closing date.

The allocation of the purchase price was based on the estimated fair values of the assets and liabilities acquired, as follows:

(millions of dollars)

Non-cash working capital	$ 22.0
Property, plant and equipment	40.6
Net debt	(14.3)
Other long-term liabilities	(0.2)
Future income taxes	(7.5)
	$ 40.6

SALE OF BC CHEMICALS

On August 29, 2003, the Company completed the sale of its BC Chemicals division to a limited partnership owned by Chemtrade Logistics Income Fund for $117.3 million. Cash proceeds of $114.2 million were received, net of transaction costs. The results of BC Chemicals were formerly included in the Pulp and Paper segment.

The following table presents selected financial information for BC Chemicals up to the date of disposal:

(millions of dollars)	2003
Net sales to external customers	$ 9.2
Operating income before income taxes	11.4
Income tax expense	(4.1)
	7.3
Gain on disposal before income taxes	79.6
Income tax expense	(19.4)
	60.2
Net income	67.5
Net income per share (diluted)	$ 0.73
Condensed cash flows:	
Cash flow from operating activities	$ 7.0
Cash flow from investing activities	114.2
Cash generated by discontinued operations	$ 121.2

Canfor entered into long-term agreements with the purchaser to ensure a continued supply of chlorate to the pulp operations (minimum of $29 million per year for ten years) and for processing of the pulp mills' soap skimmings ($4.5 million per year). A ten-year agreement was also signed to provide the purchaser with effluent treatment, steam and water supply.

4. INVENTORIES

(millions of dollars)	2004	2003
Lumber	$ 246.9	$ 172.6
Logs	186.0	125.8
Pulp	56.2	39.0
Panel products	20.8	11.4
Chips	20.0	12.2
Paper	10.7	16.0
Processing materials and supplies	95.1	68.0
	$ 635.7	$ 445.0

5. LONG-TERM INVESTMENTS AND OTHER

(millions of dollars)	2004	2003
Anti-dumping duties receivable (Note 16)	$ 116.9	$ 26.9
Investment in 317231 British Columbia Ltd.(i)		
Cost of common shares	45.1	45.1
Accumulated equity income	9.1	2.2
Other investments	14.5	13.8
Mortgage receivable from sale of property (ii)	5.8	5.8
Other deposits and loans	6.0	6.7
	$ 197.4	$ 100.5

(i) Through its investment in 317231 British Columbia Ltd., Canfor owns a one-third interest in Lakeland Mills Ltd. and The Pas Lumber Company Ltd., which own sawmills in the Prince George, British Columbia region (Note 23). The combined assets and liabilities of the two mills are $162.3 million (2003 – $143.4 million) and $78.2 million (2003 – $84.3 million), respectively.

(ii) Proceeds from property sold in 2003 were partially secured with two vendor take-back second mortgages. The mortgages have 5-year terms, with monthly interest payments.

6. PROPERTY, PLANT, EQUIPMENT AND TIMBER

(millions of dollars)	2004 Cost	2004 Accumulated Amortization	2004 Net Book Value	2003 Cost	2003 Accumulated Amortization	2003 Net Book Value
Land	$ 23.6	$ -	$ 23.6	$ 16.8	$ -	$ 16.8
Pulp and kraft paper mills	1,224.7	590.1	634.6	1,157.0	545.6	611.4
Sawmills, plywood and oriented strand board plants	927.8	380.1	547.7	610.1	331.9	278.2
Logging building and equipment	60.1	43.1	17.0	58.2	45.7	12.5
Logging roads and bridges	312.2	207.0	105.2	256.6	187.6	69.0
Other equipment and facilities	37.4	23.2	14.2	54.4	28.6	25.8
Timber	938.4	61.5	876.9	481.4	51.6	429.8
	$ 3,524.2	$ 1,305.0	$ 2,219.2	$ 2,634.5	$ 1,191.0	$ 1,443.5

Included in the above are assets under construction in the amount of $85.8 million (2003 – $20.5 million), which are not being amortized.

7. DEFERRED CHARGES

(millions of dollars)	2004	2003
Prepaid pension benefits (Note 15)	$ 46.4	$ 69.6
Unrealized foreign exchange loss on long-term debt	35.9	44.6
Software development costs	9.1	11.6
Debt issue and other expenses	3.5	1.0
	$ 94.9	$ 126.8

Deferred charges expensed during the year amounted to $32.7 million (2003 – $19.3 million), including foreign exchange losses of $8.7 million recognized on the repayment of US dollar long-term debt (2003 – $8.3 million).

8. BANK LOANS

In October 2004, Canfor entered into a new unsecured and committed $325 million credit facility to replace most of its existing demand operating credit lines. This facility, which is comprised of a $125 million 364-day amount and a three-year $200 million amount, is renewable annually and bears interest based on LIBOR or Canadian prime plus a margin based on Canfor's credit rating. The facility was not drawn down at December 31, 2004 other than $47.1 million reserved for several standby letters of credit outstanding. $4.5 million was drawn down on a separate $7.0 million credit facility held by a subsidiary.

At December 31, 2003, Canfor had $96.1 million of unused bank operating lines of credit. The amount of credit available under these lines of credit was $200.0 million, of which $55.0 million in bankers' acceptances and $27.1 million of prime rate based borrowings were issued and $21.8 million was utilized for several standby letters of credit that were outstanding at December 31, 2003.

Included in the accounts payable and accrued liabilities balance are unpresented cheques of $49.7 million (2003 – $40.2 million).

9. LONG-TERM DEBT

SUMMARY OF LONG-TERM DEBT

(millions of dollars)	2004	2003
Privately placed senior notes		
US $ - (2003 – US $12.5 million), interest at 7.73%, repayable in 4 equal annual instalments commencing June 28, 2001	$ -	$ 16.2
US $93.8 million (2003 – US $125 million), interest at 8.24%, repayable in 4 equal annual instalments commencing September 1, 2004	112.8	161.5
US $50 million, interest at 6.82%, repayable in 5 equal semi-annual instalments commencing April 1, 2005	60.2	64.6
US $30 million, interest at 7.64%, repayable March 14, 2006	36.1	38.8
US $33 million, interest at 7.74%, repayable March 1, 2007	39.7	42.6
US $15 million, interest at 7.88%, repayable March 1, 2008	18.0	19.4
US $45 million, interest at 7.98%, repayable March 1, 2009	54.2	58.2
US $97 million, interest at 8.03%, repayable in 3 equal annual instalments commencing March 1, 2009	116.7	125.4
US $60 million, interest at 5.66%, repayable April 1, 2009	72.2	-
US $50 million, interest at 6.18%, repayable April 1, 2011	60.2	-
US $50 million, interest at 6.33%, repayable February 2, 2012	60.2	-
US $75 million, interest at 5.42%, repayable April 1, 2013	90.3	-
Canadian dollar revolving facilities, bearing interest at various fixed and floating rates with various maturity dates	7.2	7.0
Other long-term obligations	0.8	1.5
	728.6	535.2
Less current portion	68.1	57.2
	$ 660.5	$ 478.0

The agreements relative to the privately placed senior notes contain provisions limiting the amount of indebtedness that the Company and its designated subsidiaries can incur and the amount of dividends payable on its common shares. Under these agreements, the Company and its designated subsidiaries can presently incur $1,214.2 million in additional long-term debt (2003 – $573.9 million) and pay up to $458.0 million or $3.20 per share in dividends on its Common Shares (2003 – $164.3 million or $2.02 per share).

FAIR VALUE OF TOTAL LONG-TERM DEBT

The fair value of total long-term debt at December 31, 2004 was $778.4 million (2003 – $579.0 million).

SCHEDULED LONG-TERM DEBT REPAYMENTS

Long-term debt repayments for the next five years are as follows:

(millions of dollars)	
2005	$ 68.1
2006	98.6
2007	89.8
2008	18.3
2009	165.5

10. CONVERTIBLE SUBORDINATED DEBENTURES

On November 23, 1999, the Company issued $155.0 million of unsecured convertible subordinated debentures as part of the purchase price for all of the outstanding shares of Northwood Inc. The debentures bore interest at 6.25% per annum, payable semi-annually, and had a maturity date of November 23, 2006.

On November 15, 2004, the Company announced its intention to redeem all of the outstanding debentures at the principal amount of $155.0 million plus accrued interest. The holders of the debentures exercised their right of conversion, which resulted in the Company issuing 11,742,424 Common Shares to them (Note 13).

11. OTHER ACCRUALS AND PROVISIONS

(millions of dollars)	2004	2003
Deferred reforestation (Note 12)	$ 72.4	$ 34.0
Countervailing duty provision (Note 16)	76.7	-
Accrued pension obligations (Note 15)	17.7	5.5
Post-employment benefits (Note 15)	54.7	34.0
Other long-term liabilities	2.2	9.5
	$ 223.7	$ 83.0

12. DEFERRED REFORESTATION

The Company's reforestation obligation and expense are as follows:

(millions of dollars)	2004	2003
Reforestation obligation – beginning of the year	$ 73.6	$ 81.1
Slocan Forest Products Ltd. – April 1, 2004 balance (Note 3)	44.7	-
Expense for the year	47.8	37.1
Less: paid during the year	(43.4)	(44.6)
Reforestation obligation – end of the year	$ 122.7	$ 73.6
Current	$ 50.3	$ 39.6
Long-term (Note 11)	72.4	34.0
	$ 122.7	$ 73.6

The total undiscounted amount of the estimated cash flows required to settle the obligation at December 31, 2004 was $133.6 million (2003 – $79.2 million) with payments spread over 21 years. The estimated cash flows have been adjusted for inflation and discounted using credit-adjusted risk-free rates ranging from 3 to 6%.

13. SHARE CAPITAL

AUTHORIZED

10,000,000 preferred shares, with a par value of $25 each

1,000,000,000 common shares without par value

ISSUED

(millions of dollars)	2004		2003	
Common shares, beginning of year	81,267,281	$ 659.2	81,156,010	$ 658.3
Issued to former Slocan shareholders (Note 3)	49,333,564	452.9	-	-
Issued on redemption of convertible debentures (Note 10)	11,742,424	155.0	-	-
Stock options exercised (Note 14)	1,073,011	9.5	111,271	0.9
Common shares, end of year	143,416,280	$ 1,276.6	81,267,281	$ 659.2
Shares repurchased under normal course issuer bid	(104,800)	$ (0.9)	-	$ -
	143,311,480	$ 1,275.7	81,267,281	$ 659.2

In December 2004, the Company purchased 104,800 common shares for cancellation under a Normal Course Issuer Bid. The shares were purchased on the open market at an average price of $14.65 per share, and the excess of the purchase price over the average book value per share, in the amount of $0.6 million, has been charged to retained earnings. These shares were cancelled in January 2005. The Normal Course Issuer Bid, which allows for the purchase for cancellation of up to 6,578,868 Common Shares, or approximately 5% of the Company's outstanding shares, is expected to continue until October 14, 2005, unless terminated or completed earlier.

14. STOCK-BASED COMPENSATION

The Company has three stock-based compensation plans, which are described below.

STOCK OPTION PERFORMANCE PLAN

The Company has a stock option performance plan pursuant to which stock options are granted to selected officers and senior managers. The stock option performance plan provides for the issuance of up to a maximum of 5.8 million common shares at an exercise price equal to the market price of the Company's common shares on the date of grant. However, there are various criteria that limit the amount of options exercisable during each option year within the option period. A summary of the status of the plan as of December 31, 2004 and 2003, and changes during the years ending on those dates is presented below:

	2004		2003	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at the beginning of year	1,667,316	$ 8.94	5,536,187	$ 10.80
Exercised	(1,073,011)	8.86	(111,271)	8.30
Cancelled	(95,001)	7.44	(3,757,600)	11.70
Outstanding at the end of the year	499,304	$ 9.39	1,667,316	$ 8.94

The following table summarizes information about stock options outstanding at December 31, 2004:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$7.57 to $8.30	150,967	7.10	$ 8.28	148,633	$ 8.29
$9.80 to $11.80	348,337	7.06	9.88	106,504	10.04
	499,304		$ 9.39	255,137	$ 9.02

EMPLOYEE SHARE PURCHASE PLAN

Canfor has a share purchase plan, which is available to all employees. Purchases of common shares under this plan occur on the open market. Under the plan the employees can purchase up to 10% of their base salary or wage. Canfor matches 30% of the first 5% of the amount contributed by the employee and pays the share purchase plan brokerage fees. In 2004, contributions of $1.6 million were made towards the purchase of the Company's common shares under the terms of the plan (2003 – $1.3 million).

DEFERRED SHARE UNIT PLAN

On January 1, 2002, the Company implemented a Deferred Share Unit Plan for non-employee directors of the Company. A Deferred Share Unit (DSU) is a right granted to a non-employee director to receive one common share of the Company, purchased on the open market, or the cash equivalent, on a deferred payment basis. The maximum number of DSUs outstanding under the plan is 1,000,000, and currently each non-employee director is entitled to 2,500 DSUs per year. The value of the DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company, its subsidiaries or any affiliated entity. The value of the outstanding DSUs at December 31, 2004 was $1.2 million (2003 – $0.6 million).

PRO-FORMA DISCLOSURE

No new stock options were granted in 2004 or 2003. During 2002, Canfor granted a total of 737,500 stock options to employees at exercise prices ranging from $7.57 to $10.10, which were the market prices on the dates the options were granted. One third of the options are exercisable after each of the first, second and third years and the options expire in 2012. The following pro forma disclosure presents the effect on net income and earnings per share had the fair value based method been applied on a graded vesting basis to options granted after January 1, 2002:

(millions of dollars, except per share amounts)	2004	2003
Net income		
As reported	$ 420.9	$ 153.3
Pro forma	$ 420.6	$ 152.6
Net income per common share		
As reported – Basic	$ 3.45	$ 1.81
– Diluted	$ 3.22	$ 1.65
Pro forma – Basic	$ 3.45	$ 1.81
– Diluted	$ 3.21	$ 1.64

The fair value of the stock options granted after January 1, 2002 was estimated on each grant date using a Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 2.6%; expected volatility of 44%; risk-free interest rate of 3.75%; and an expected life of 4 years. The weighted average fair value of each option was $3.10.

15. EMPLOYEE FUTURE BENEFITS

Canfor has several funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to substantially all salaried employees and certain hourly employees. The defined benefit plans are based on years of service and final average salary. Canfor's other post-employment benefit plans are non-contributory and include a range of health care and other benefits.

Canfor acquired Slocan Forest Products Ltd. in April 2004 (Note 3), including its pension and other employee benefit plans. Subsequent restructuring in 2004 included termination of employees, which resulted in the recognition of special termination benefits of $1.8 million.

The Company is in the process of winding up its Taylor sawmill pension plan, following the closure of the mill in 2004 (Note 17), and, as a result, a curtailment loss of $5.3 million has been recognized in the current year's expense.

Total cash payments for employee future benefits for 2004 were $45.9 million (2003 – $28.2 million), consisting of cash

contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans, and cash contributed to its forest industry union defined benefit plans.

DEFINED BENEFIT PLANS

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30th of each year. In 2004, Canfor had 10 registered defined benefit plans, for which actuarial valuations are performed every three years.The most recent actuarial valuation for funding purposes of Canfor's single largest pension plan was on December 31, 2001 and a valuation at December 31, 2004 is presently underway.

Information about Canfor's defined benefit plans, in aggregate, is as follows:

DEFINED BENEFIT PLAN ASSETS

	2004		2003	
(millions of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets				
Beginning of year	$ 362.7	$ -	$ 341.9	$ -
Acquisition of Slocan	62.8	-	-	-
Actual gain on plan assets	35.1	-	31.3	-
Canfor contributions	11.9	2.6	6.6	2.3
Employee contributions	2.4	-	1.9	-
Benefit payments	(24.4)	(2.6)	(19.0)	(2.3)
End of year	$ 450.5	$ -	$ 362.7	$ -

Plan assets consist of the following:

	Percentage of Plan Assets	
	2004	2003
Equity securities	59 %	61 %
Debt securities	35 %	33 %
Real estate	2 %	2 %
Other	4 %	4 %
	100 %	100 %

DEFINED BENEFIT PLAN OBLIGATIONS

	2004		2003	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation				
Beginning of year	$ 359.6	$ 105.5	$ 314.9	$ 75.2
Acquisition of Slocan	84.9	8.8		
Current service cost	13.1	2.9	8.2	2.1
Interest cost	27.1	7.3	22.5	6.3
Employee contributions	2.4	-	1.9	-
Benefit payments	(24.4)	(2.6)	(19.0)	(2.3)
Actuarial loss (gain)	31.6	(23.1)	31.1	24.2
Special termination benefits arising from corporate restructuring	1.8	-	-	-
End of year	$ 496.1	$ 98.8	$ 359.6	$ 105.5

RECONCILIATION OF THE FUNDED STATUS OF THE BENEFIT PLANS TO THE AMOUNTS RECORDED IN THE FINANCIAL STATEMENTS

	2004		2003	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets	$ 450.5	$ -	$ 362.7	$ -
Accrued benefit obligation	496.1	98.8	359.6	105.5
Funded status of plans – surplus (deficit)	(45.6)	(98.8)	3.1	(105.5)
Employer contributions after measurement date	2.0	-	7.0	-
Unamortized transitional amount	(32.5)	21.8	(35.3)	23.7
Unamortized past service costs	3.9	-	4.6	-
Unamortized net actuarial loss	109.2	22.3	92.5	47.8
Accrued benefit asset (liability)	37.0	(54.7)	71.9	(34.0)
Valuation allowance	(1.8)	-	(1.6)	-
Accrued benefit asset (liability), net of valuation allowance	$ 35.2	$ (54.7)	$ 70.3	$ (34.0)
The accrued benefit asset (liability) is included in the Company's balance sheet as follows:				
Deferred charges (Note 7)	$ 46.4	$ -	$ 69.6	$ -
Other accruals and provisions (Note 11)	(11.2)	(54.7)	0.7	(34.0)
	$ 35.2	$ (54.7)	$ 70.3	$ (34.0)

Included in the above pension and other retirement benefit provisions and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	2004		2003	
(millions of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets	$ 365.5	$ -	$ 77.0	$ -
Accrued benefit obligation	421.3	(98.8)	(103.1)	(105.5)
Funded status - plan deficit	$ (55.8)	$ (98.8)	$ (26.1)	$ (105.5)

Of the $55.8 million of pension plan deficit noted above, $31.4 million relates to unregistered plans for which funding is not required (2003 – $11.5 million). $7.5 million of the unregistered pension liabilities are secured by a letter of credit.

Funding of the "other benefit plans" is made as expenditures are incurred.

BENEFIT PLAN EXPENSE

Canfor's expense for company-sponsored benefit plans is as follows:

(millions of dollars)	2004 Incurred in Year	2004 Matching Adjustments (Note 1)	2004 Recognized in Year	2003 Incurred in Year	2003 Matching Adjustments (Note 1)	2003 Recognized in Year
Pension Benefit Plans						
Current service cost, net of employee contributions	$ 13.1	$ -	$ 13.1	$ 8.2	$ -	$ 8.2
Interest cost	27.1	-	27.1	22.5	-	22.5
Return on plan assets	(35.1)	6.0	(29.1)	(31.3)	7.1	(24.2)
Actuarial loss (gain)	31.6	(27.0)	4.6	31.1	(27.7)	3.4
Curtailment loss	5.3	-	5.3	-	-	-
Special termination benefits	1.8	-	1.8	-	-	-
Plan amendments	-	0.4	0.4	-	0.4	0.4
Valuation allowance provided against accrued benefit asset	-	0.2	0.2	-	(0.2)	(0.2)
Amortization of transitional obligation (asset)	-	(3.8)	(3.8)	-	(3.7)	(3.7)
	$ 43.8	$ (24.2)	$ 19.6	$ 30.5	$ (24.1)	$ 6.4
Other Benefit Plans						
Current service cost, net of employee contributions	$ 2.9	$ -	$ 2.9	$ 2.1	$ -	$ 2.1
Interest cost	7.3	-	7.3	6.3	-	6.3
Actuarial loss (gain)	(23.1)	25.5	2.4	24.2	(22.4)	1.8
Amortization of transitional obligation (asset)	-	1.9	1.9	-	2.0	2.0
	$ (12.9)	$ 27.4	$ 14.5	$ 32.6	$ (20.4)	$ 12.2

Note 1: Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits

Canfor also provides pension bridge benefits to certain eligible former employees. At December 31, 2004, the actuarially determined obligation for these benefits was $11.1 million (2003 – $10.5 million). The accrued benefit liability for these benefits, included in "other accruals and provisions" on the balance sheet at December 31, 2004, was $6.5 million (2003 – $6.2 million) and the related expense recognized in the current year was $1.2 million (2003 – $1.4 million).

SIGNIFICANT ASSUMPTIONS

The actuarial assumptions used in measuring Canfor's benefit plan provisions are as follows:

(weighted average assumptions)	2004 Pension Benefit Plans	2004 Other Benefit Plans	2003 Pension Benefit Plans	2003 Other Benefit Plans
Accrued benefit obligation as of December 31:				
Discount rate	6.25%	6.5%	6.5%	6.5%
Rate of compensation increase	3.5%	n/a	2% per year for 5 years and 3% thereafter	n/a
Benefit costs for year ended December 31:				
Discount rate	6.5%	6.5%	7.25%	7.25%
Expected long-term rate of return on plan assets	7.15%	n/a	7.20%	n/a
Rate of compensation increase	3.0%	n/a	2% per year for 5 years and 3% thereafter	n/a

ASSUMED HEALTH CARE COST TREND RATES

(weighted average assumptions)	2004	2003
Initial health care cost trend rate	6.12%	5.70%
Ultimate health care trend rate	4.28%	4.23%
Year ultimate rate is reached	2011	2010

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one-percentage-point change in assumed health care cost trend rates would have had the following effects for 2004:

	1% Increase	1% Decrease
Accrued benefit obligation	$ 15.6	$ (12.4)
Total of service and interest cost	$ 2.2	$ (1.7)

DEFINED CONTRIBUTION AND OTHER PLANS

The total cost recognized in 2004 for the Company's defined contribution plans was $1.2 million (2003 – nil).

Canfor contributes to various forest industry union defined benefit pension plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the cost recognized for defined contribution plans above, amounted to $29.5 million in 2004 (2003 – $18.6 million).

16. COUNTERVAILING AND ANTI-DUMPING DUTIES

The US Department of Commerce (DOC) imposed an 18.79% countervailing duty (CVD) on Canadian lumber shipments to the US effective May 16, 2002. Canfor's company-specific cash deposit rate was subsequently reduced to 12.24%, effective prospectively from March 10, 2004. Canfor continued to expense CVD at 18.79% after this date, because of the uncertainty about whether a company-specific administrative review would be granted. Canfor's subsidiary in Quebec, which was acquired in May 2003, had been making CVD deposits and recording the expense at their reduced company-specific deposit rate of 2.99% since November 2002. On December 14, 2004, after completing its administrative review for the period from May 2002 to April 2003 (POR1), the DOC determined the CVD assessment rate of 17.18% applicable to all Canadian companies for POR1. As a result of this determination, Canfor reduced its CVD accrual by $4.6 million, reducing the accrual for Canfor to record CVD expense at 17.18% for POR1, and increasing the accrual for the Quebec subsidiary to record CVD expense at 17.18% for the period from May 27, 2003 to December 20, 2004. The combined additional CVD accrued in excess of the cash deposits made at December 31, 2004 is $76.7 million and is included in "other accruals and provisions" (Note 11).

The DOC also imposed anti-dumping duties (ADD) on Canadian lumber shipments to the US effective May 16, 2002. Canfor's company-specific rate was determined at 5.96% and Slocan's company-specific rate was determined at 7.71%. While the cash payments up to December 20, 2004 were made at the required deposit rates, Canfor regularly reviews its estimate of the ADD expense rate by applying the DOC's methodology to updated sales and cost data as it became available. Canfor and Slocan had accrued ADD expense ranging from 2% to 3.4% for the periods from May 22, 2002 to December 31, 2004. On December 14, 2004, the DOC determined the ADD assessment rate for Canfor at 2.06% and for Slocan at 1.37% for POR1. As a result of this determination, Canfor reduced its ADD accrual by $6.0 million to adjust the ADD expense accrued to the assessment rates for Canfor and Slocan for POR1. The cumulative ADD cash deposits in excess of the calculated expense accrued at December 31, 2004 is $116.9 million and is being carried as a receivable under "long-term investments and other".

The DOC officially announced in the Federal Register that it would be assessing duties in accordance with the rates that it determined in the reviews, which legal counsel advise would result in the excess ADD deposits being recoverable. Notwithstanding the rates established in the investigations and the posting of cash deposits, the final liability for the assessment of countervailing and anti-dumping duties will not be determined until the DOC's administrative review process is complete and all subsequent challenges or appeals are finalized.

As a result of the December 14, 2004 DOC determination, the CVD cash deposit rate was reduced to 17.18% and the company-specific ADD cash deposit rate was reduced to 1.83% for US lumber shipments after December 20, 2004.

As at December 31, 2004, Canfor (including legacy Slocan) had paid combined duty deposits of US $538.2 million (CVD of US $383.7 million and ADD of US $154.5 million) since inception of CVD and ADD in May 2002.

On August 31, 2004, a NAFTA Panel ruled, for the third time, that the US had failed to prove that Canadian lumber imports posed a threat of material injury to the US industry. The Panel gave the ITC ten days to comply with its ruling, which would effectively end the case and result in the return of all duties collected to date. On September 10th, the ITC released a decision indicating that the Canadian lumber industry did not threaten the US industry with material injury during the period of investigation. On October 13th, NAFTA formally issued its affirmation of the ITC's negative injury ruling. As expected, in November the US appealed the NAFTA Panel's decision to a special Extraordinary Challenge Committee (ECC) under the NAFTA, which will extend the case to March 2005 or beyond. If the ECC upholds the NAFTA Panel's decision, the US anti-dumping and countervailing duty orders would be terminated as a result of the ITC's new determination.

Canadian Interests continue to aggressively defend the Canadian industry in this US trade dispute and are appealing the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO.

17. RESTRUCTURING COSTS

In 2004, Canfor expensed $20.4 million of severance, pension and other costs associated with the integration of Canfor and Slocan's operations.

Canfor also recognized $7.9 million of severance and other costs in 2004, associated with the announced closures of the Hines Creek sawmill and Quesnel Specialty mill.

The closure of the Taylor sawmill was completed during the year and resulted in the recognition of further severance, pension and other costs of $6.8 million. Additional costs of $1.4 million related to the closure of the Upper Fraser sawmill in 2003 were also incurred during the year.

The following table provides a reconciliation of the restructuring provisions for the year ended December 31, 2004:

	Integration Costs	Mill Closure & Other Restructuring Costs	Total
Balance of liability at beginning of period	$ -	$ 16.9	$ 16.9
Accrued in the period *	20.4	16.1	36.5
Assets write-downs and other non-cash items	(5.3)	(9.9)	(15.2)
Payments in the period	(4.3)	(9.6)	(13.9)
Balance of liability at end of period	$ 10.8	$ 13.5	$ 24.3
*reported in the following segments:			
Lumber	$ 4.1	$ 16.1	$ 20.2
Corporate	16.3	-	16.3
	$ 20.4	$ 16.1	$ 36.5

The majority of the remaining liability will be paid in 2005 and 2006.

18. INTEREST EXPENSE

(millions of dollars)	2004 Long-term	2004 Short-term	2004 Total	2003 Long-term	2003 Short-term	2003 Total
Total interest cost	$ 54.0	$ 5.2	$ 59.2	$ 45.0	$ 7.9	$ 52.9
Less: Interest income	0.6	7.7	8.3	0.6	1.2	1.8
Interest capitalized	-	0.5	0.5	-	0.6	0.6
	$ 53.4	$ (3.0)	$ 50.4	$ 44.4	$ 6.1	$ 50.5

19. INCOME TAXES

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities are as follows:

(millions of dollars)	2004 Current	2004 Long-term	2003 Current	2003 Long-term
Future income tax assets				
Capital loss carry forward	$ -	$ 2.9	$ -	$ 2.9
Accruals not currently deductible	28.0	35.7	18.9	16.5
Post employment benefits	-	25.7	-	14.0
Countervailing duty liability	3.6	27.1	2.6	-
Loss carry forward arising from restructuring of Howe Sound Limited Partnership (Note 24)	-	48.9	-	192.2
Other	0.9	1.1	0.4	4.6
	$ 32.5	$ 141.4	$ 21.9	$ 230.2
Future income tax liabilities				
Depreciable capital assets	$ -	$ (567.0)	$ -	$ (365.6)
Deferred pension costs	-	(16.5)	-	(24.7)
Anti-dumping duty receivable	-	(42.1)	-	(9.1)
Other	-	(15.0)	-	(6.5)
	$ -	$ (640.6)	$ -	$ (405.9)
Future income taxes, net	$ 32.5	$ (499.2)	$ 21.9	$ (175.7)

The components of income tax recovery (expense) are as follows:

(millions of dollars)	2004	2003
Current	$ (8.1)	$ 9.5
Future	(163.8)	(13.6)
Tax benefit of current Howe Sound Limited Partnership losses	1.1	8.1
Tax on equity earnings	(4.1)	(0.3)
	(174.9)	3.7
Amortization of deferred credit on utilization of acquired tax losses	68.5	-
	$ (106.4)	$ 3.7

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

(millions of dollars)	2004	2003
Net income before income taxes	$ 527.3	$ 82.1
Income tax expense at statutory tax rate	$ (187.2)	$ (29.9)
Large corporation tax	(6.2)	(4.7)
Amortization of deferred credit on utilization of acquired tax losses	68.5	-
Benefit of capital losses not previously recognized	8.6	-
Permanent difference from capital gains and losses	8.6	29.9
Howe Sound Limited Partnership losses (Note 24)	1.1	8.1
Other permanent differences and tax adjustments	0.2	0.3
Income tax recovery (expense)	$ (106.4)	$ 3.7

20. EARNINGS PER SHARE

Basic earnings per share are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are based on the weighted average number of common shares, convertible subordinated debentures and stock options outstanding at the beginning of or granted during the period.

(millions of dollars, except for number of shares and per share amounts)	2004	2003
Basic Earnings		
Net income from continuing operations	$ 420.9	$ 85.8
Less interest on equity component of convertible debentures, net of taxes	(5.4)	(6.0)
Net income from continuing operations available to common shareholders	415.5	79.8
Net income from discontinued operations	-	67.5
Net income available to common shareholders	415.5	147.3
Diluted Earnings		
Add back interest on equity component of convertible debentures, net of taxes	5.4	6.0
Net income from continuing operations available to common shareholders	420.9	85.8
Net income available to common shareholders	$ 420.9	$ 153.3
Weighted average number of common shares	120,452,437	81,179,973
Incremental shares from stock options	226,625	88,891
Shares issuable upon conversion of convertible debentures	10,234,517	11,742,424
Diluted number of common shares	130,913,579	93,011,288
Per common share		
Net income from continuing operations		
Basic	$ 3.45	$ 0.98
Diluted	$ 3.22	$ 0.92
Net income		
Basic	$ 3.45	$ 1.81
Diluted	$ 3.22	$ 1.65

All options to purchase common shares that were outstanding at the end of 2004, were included in the computation of dilutive earnings per share. Options to purchase 818,000 common shares at various prices, from $7.30 to $11.80 per share, were outstanding at the end of 2003 but were not included in the computation of dilutive earnings per share either because the options' exercise prices were greater than the average market price of the common shares or, in the case of performance-based stock options, market value targets had not been met.

21. INCREASE (DECREASE) IN NON-CASH WORKING CAPITAL

(millions of dollars)	2004	2003
Accounts receivable	$ 56.5	$ (52.3)
Inventories	51.2	(8.9)
Prepaid expenses	(7.6)	(2.3)
Accounts payable, accrued liabilities and current portion of deferred reforestation	(37.6)	37.4
Income taxes	(2.9)	(3.9)
	$ 59.6	$ (30.0)

22. FINANCIAL INSTRUMENTS

COMMODITY PRICE RISK

Canfor uses financial instruments to reduce its exposure to risks associated with lumber prices and energy costs. Commodity swaps hedging future natural gas purchases of 2.6 million Gigajoules were outstanding at the end of the year at an average price of $6.26 per Gigajoule (2003 – 1.8 million). There was an unrealized loss of $0.1 million on these swaps at December 31, 2004 (2003 – $0.7 million). There were also 195 lumber futures contracts outstanding at December 31, 2004 (2003 – nil), which had an unrealized loss of $0.1 million.

CREDIT RISK

Canfor does not have a significant concentration of credit risk as no one individual customer accounts for 10% or more of total company sales. Canfor reviews the credit history of all new customers before extending credit and also performs regular reviews of the credit performance of existing customers. Canfor may require payment guarantees, such as letters of credit, or obtains credit insurance coverage. The allowance for doubtful accounts as at December 31, 2004 was $0.6 million (2003 – $0.2 million).

CURRENCY RISK

A significant portion of Canfor's income from operations is generated from sales denominated in US dollars. In order to manage some of the risk associated with fluctuating exchange rates, Canfor enters into forward exchange contracts from time to time. Contracts totaling US $20 million were exercised in the current year (2003 – $143.5 million) and the realized gain of $1.8 million is reflected in sales (2003 – US $32.0 million). At December 31, 2004, Canfor had no forward exchange contracts outstanding (2003 – $26.0 million).

INTEREST RATE RISK

Canfor is exposed to interest rate risk arising from fluctuations in interest rates on its cash, cash equivalents, and short-term investments. The Company has considered, but does not use, derivative instruments to reduce its exposure to interest rate risk.

23. RELATED PARTY TRANSACTIONS

Transactions with related parties occur at fair market value, unless otherwise noted below.

Canfor markets the pulp production of Howe Sound Pulp and Paper Limited Partnership (HSLP) (Note 24) for which it received commissions totaling $3.0 million in 2004 (2003 – $2.8 million) under the terms of its agency sales agreement. Based on a separate prepayment agreement between Canfor and Oji, the partners of HSLP, at December 31, 2004, Canfor had prepaid $44.0 million to HSLP in advance of the due date of receivables for pulp marketed and collected on their behalf (2003 – $33.5 million). Canfor charges a market rate of interest to HSLP for the period paid in advance. The agreement provides for the partners to prepay up to a maximum amount of $50 million each, which is used as short-term operating funds by HSLP. In addition, on October 31, 2004, Canfor purchased HSLP's offsite pulp log and chip inventory at its market value of $19.0 million. Canfor has also agreed to purchase pulp logs and chips for resale to HSLP at Canfor's cost, to meet HSLP's future requirements. HSLP will pay a fee to Canfor for this service. Canfor provides management, fibre supply and other services to HSLP at cost, for which it charged $1.9 million in fees for 2004 (2003 – $1.8 million). There was a balance outstanding of $4.6 million at December 31, 2004 with respect to these fees and other receivables (2003 – $3.2 million).

Canfor sells logs and chips to HSLP, which amounted to $14.2 million in 2004 (2003 – $9.1 million). Canfor's BC Chemicals operation sold sodium chlorate to HSLP, until that operation was sold in August 2003 (Note 3). Sodium chlorate sales to HSLP amounted to $4.2 million in 2003.

Canfor purchases pulp chips and lumber from Lakeland Mills Ltd. and The Pas Lumber Company Ltd. During 2004, Canfor purchased $15.3 million in pulp chips and $13.0 million in lumber (2003 – $10.7 million and $10.8 million respectively).

Canfor also purchased $6.7 million in pulp chips from Fibreco Export Inc. during 2004.

During 2004, Kyahwood Forest Products Ltd. provided remanufacturing services to Canfor in the amount of $5.8 million (2003 – $5.1 million).

24. HOWE SOUND PULP AND PAPER LIMITED PARTNERSHIP

On March 10, 2001, Canfor and Oji Paper Co., Ltd. (Oji), its 50% co-venturer in the Howe Sound Pulp and Paper Limited (Howe Sound) joint venture, transferred the business of Howe Sound into a limited partnership, Howe Sound Pulp and Paper Limited Partnership (the Partnership). The Partnership continues to be jointly owned by Canfor and Oji and continues to carry on the existing operations of Howe Sound.

As part of the reorganization, Howe Sound was amalgamated with Canadian Forest Products Ltd. (CFP), Canfor's principal operating subsidiary, and approximately $643 million of tax losses of Howe Sound became available to reduce the future taxable income of CFP. In 2001, as part of the reorganization, CFP made a payment of $60.2 million to the Partnership, which was applied to reduce the long-term debt of Howe Sound assumed by the Partnership. Further payments were made to the partnership in 2002 and 2004 of $5.0 million and $7.0 million respectively as a result of losses utilized, and a further, final payment of $50.0 million was made to the Partnership on January 2, 2005.

As a result of this reorganization, CFP recorded a future income tax asset and a deferred credit, which were $48.9 million and $27.2 million, respectively, at December 31, 2004 ($192.2 million and $95.7 million at December 31, 2003). The deferred credit is being recognized in income on a systematic basis.

As a result of continuing losses at Howe Sound, Canfor and its partner Oji are evaluating strategic alternatives for this operation. Canfor wrote off its investment in the joint venture in 1998 and no longer reflects its share of the joint venture's results in its earnings. Canfor's method of accounting for its interest in the Partnership did not change as a result of the reorganization.

While Canfor does not reflect the Partnership's results in its earnings, it is required to include its share of the limited partner's income or loss, within the limits imposed by the Income Tax Act (Canada), in the calculation of taxable income. This had the effect of increasing Canfor's future income tax recovery in 2004 by $1.1 million (2003 – $8.1 million). Any income tax expense incurred by Canfor will be reimbursed by the Partnership.

25. CANFOR-LP OSB LIMITED PARTNERSHIP

In 2000, Slocan entered into a shareholders agreement with Louisiana-Pacific Canada Ltd. to jointly undertake construction and operation of an oriented strand board mill with rated annual capacity of 820 million square feet (3/8" basis), in Fort St. John, British Columbia. The decision to proceed with the project was made in January 2004. Canfor has agreed to supply 330,000 cubic metres of timber annually to the joint venture out of its existing timber tenure in the area. The joint venture is still in the pre-operating construction phase.

In 2004, Canfor made capital contributions of $38.2 million to the venture. In order to retain its 50% interest, Canfor has agreed to contribute 50% of the capital to fund the project, which is estimated to have a total cost of $226.4 million.

As at December 31, 2004, Canfor has commitments of $53.3 million in relation to the construction of the oriented strand board mill.

At the end of the year, a limited partnership was formed to own the assets and carry on the business.

Canfor began proportionately consolidating the joint venture in the fourth quarter and has included the following amounts, which represent its 50% ownership interest, in these consolidated financial statements at December 31, 2004:

(millions of dollars)	
Balance Sheet	
Cash	$ 1.2
Other current assets	1.3
Construction in progress	41.8
Deferred start-up costs	3.0
Accounts payable and accrued liabilities	(7.0)
	$ 40.3
Cash flow	
Cash used in operating activities (working capital)	$ 5.7
Cash used in investing activities	(44.8)
	$ (39.1)

26. SEGMENTED INFORMATION

(millions of dollars)	Lumber [a]	Panels [a]	Pulp & Paper	Coastal Operations	Corporate & Other	Consolidated
Year ended December 31, 2004						
Sales to external customers [b]	$ 2,881.1	373.4	981.7	105.7	-	$ 4,341.9
Sales to other segments [c]	$ 121.8	3.5	-	10.8	-	$ 136.1
Operating income (loss)	$ 411.6	121.0	45.1	(2.2)	(54.0)	$ 521.5
Amortization	$ 87.8	8.5	44.5	6.8	7.6	$ 155.2
Capital expenditures	$ 52.5	61.8	61.1	6.7	2.4	$ 184.5
Identifiable assets [d]	$ 1,781.0	233.5	910.6	94.8	1,008.2	$ 4,028.1
Year ended December 31, 2003						
Sales to external customers [b]	$ 1,566.9	122.8	853.4	119.5	-	$ 2,662.6
Sales to other segments [c]	$ 86.0	3.1	-	8.1	-	$ 97.2
Operating income (loss)	$ (10.0)	5.3	25.7	1.4	(25.2)	$ (2.8)
Amortization	$ 51.4	2.5	44.1	5.8	6.0	$ 109.8
Capital expenditures	$ 93.1	1.8	23.3	5.0	0.3	$ 123.5
Identifiable assets [d]	$ 1,077.8	42.0	828.7	65.5	433.3	$ 2,447.3

	2004	2003
Sales by location of customer		
Canada	$ 726.4	$ 471.7
United States	2,811.0	1,525.6
Europe	316.3	293.4
Far East and Other	488.2	371.9
	$ 4,341.9	$ 2,662.6

a In the second quarter of 2004, subsequent to the business combination discussed in Note 3, Canfor divided its former Wood Products segment into its two major product categories. The Lumber segment includes all logging and forestry operations formerly included in Wood Products and the sawmill and remanufacturing operations. The Panels segment includes the plywood, oriented strand board and panel and fibre operations.

b No single customer accounted for 10% or more of the Company's total sales.

c Sales to other segments are accounted for at prices which approximate market value.

d Substantially all of the Company's property, plant, equipment and timber are located in Canada.

27. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

a. The company has committed to the following operating leases for property, plant and equipment. As at December 31, 2004, the future minimum lease payments under these operating leases were as follows:

(millions of dollars)	
2005	$ 24.9
2006	16.5
2007	9.8
2008	5.2
2009	2.4
Thereafter	2.7
Total minimum lease payments	$ 61.5

b. Canfor's investment in Lakeland Mills Ltd. and The Pas Lumber Company Ltd. is pledged as security for the bank debt of those mills.

c. Capital expenditures

Prince George Pulp and Paper Co-generation Project – On October 31, 2003, Canfor announced that it had entered into an agreement with BC Hydro to build a major electrical co-generation facility at Canfor's Prince George Pulp and Paper Mill. This project will make Canfor's Prince George Pulp and Paper and Intercontinental Pulp mills 100% self-sufficient in electricity generation. Under the agreement, BC Hydro is to contribute up to $49 million and Canfor is to contribute the balance for the cost of the project, which is scheduled for completion during the second quarter of 2005. At December 31, 2004, Canfor had capitalized $42.2 million of construction costs ($4.9 million at December 31, 2003) and had further commitments of $9.6 million for 2005. Should Canfor fail to complete the Project by February 28, 2006, it will be required to repay BC Hydro for any incentive payments received by Canfor and BC Hydro will be entitled to enforce any security provided by Canfor and to terminate the agreement. As of December 31, 2004, Canfor had received a total of $26.0 million in incentive payments from BC Hydro and a further $6.7 million was recorded as a receivable. These amounts have been credited to property, plant and equipment. As security, Canfor has posted a letter of credit in the amount of $18.3 million.

As at December 31, 2004, Canfor has commitments of $8.6 million for a capital project at the PolarBoard division.

CONTINGENCIES

THE FORESTRY REVITALIZATION PLAN

In March 2003, the Government of British Columbia (the Crown) introduced the Forestry Revitalization Plan (the Plan) that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including Canfor, are required to return 20% of their replaceable tenure to the Crown. The Plan states that approximately half of this volume will be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half will be available for public auction. The Crown has acknowledged that licensees will be fairly compensated for the return of tenure and related infrastructure costs such as roads and bridges.

The effect of the timber take-back will result in a reduction of approximately 2.4 million cubic metres to Canfor's existing allowable annual cut on its replaceable tenures. While the legislation taking back the 20% was passed in March 2003, the government has effectively loaned back the volume until the Minister orders that it is needed.

Canfor has worked with the government to identify those licenses and operating areas that are to be returned to the Crown. The allocation of the take-back among the tenures held by Canfor under this legislation was determined by Canfor and the government in December 2004 and is to take effect in three stages: in December 2004, in March 2005 and March 2006. The amount of compensation to be made to Canfor for the take-back has not yet been determined.

The effect of the Plan on Canfor's financial position and results of operations cannot be determined at this time. Canfor will record the effects of the Plan at the time that the amounts to be recorded are estimable.

PROPERTY TRANSFER TAX ASSESSMENT

In 2003, Canfor had appealed an assessment by the British Columbia Ministry of Provincial Revenue for property transfer taxes associated with the amalgamation of Canadian Forest Products and Howe Sound Pulp and Paper Limited in 2001. In 2004, the appeal was heard by the BC Supreme Court, and the case was decided in Canfor's favour. The letter of credit for $11.1 million posted by Canfor was released by the Ministry in the fourth quarter of 2004.

28. COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to the current year's presentation.

[unaudited]

PRODUCTION

2004	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber – MMfbm	816.0	1,270.5	1,190.4	1,335.0	4,611.9
Plywood – 000 Msf 3/8" basis	44.0	109.1	98.6	104.9	356.6
Oriented strand board – 000 Msf 3/8"	-	125.8	126.4	132.6	384.8
Pulp – 000 mt	249.0	297.5	286.7	309.1	1,142.3
Kraft paper – 000 mt	34.0	33.5	34.7	31.9	134.1
Coastal logs – 000 m^3	230.2	447.3	211.2	423.5	1,312.2

2003	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber – MMfbm	751.9	821.5	628.9	691.0	2,893.3
Plywood – 000 Msf 3/8" basis	45.3	46.9	40.0	43.4	175.6
Oriented strand board – 000 Msf 3/8"	-	-	-	-	-
Pulp – 000 mt	262.6	236.0	259.2	234.3	992.1
Kraft paper – 000 mt	31.1	27.9	34.5	35.0	128.5
Coastal logs – 000 m^3	427.2	441.4	96.1	292.8	1,257.5

SHIPMENTS

2004	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber – MMfbm					
Canfor produced	727.2	1,320.4	1,214.6	1,365.6	4,627.8
Purchased from other wholesale producers	61.5	87.2	72.5	79.0	300.2
Total Lumber	788.7	1,407.6	1,287.1	1,444.6	4,928.0
Plywood – 000 Msf 3/8" basis	45.4	108.9	93.0	96.3	343.6
Oriented strand board – 000 Msf 3/8"	-	132.6	120.5	126.5	379.6
Pulp – 000 mt					
Canfor produced	241.7	284.5	275.2	312.8	1,114.2
Marketed on behalf of HSLP*	73.6	89.9	85.4	109.0	357.9
Total Pulp	315.3	374.4	360.6	421.8	1,472.1
Kraft paper – 000 mt	35.3	39.4	34.1	31.0	139.8
Coastal logs – 000 m^3	187.7	481.3	119.4	359.9	1,148.3

2003	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber – MMfbm					
Canfor produced	719.6	766.3	753.7	702.4	2,942.0
Purchased from other wholesale producers	70.4	79.0	69.4	77.3	296.1
Total Lumber	790.0	845.3	823.1	779.7	3,238.1
Plywood – 000 Msf 3/8" basis	40.0	47.7	48.4	36.2	172.3
Oriented strand board – 000 Msf 3/8"	-	-	-	-	-
Pulp – 000 mt					
Canfor produced	273.9	220.2	244.3	260.8	999.2
Marketed on behalf of HSLP*	92.3	84.6	101.8	83.0	361.7
Total Pulp	366.2	304.8	346.1	343.8	1,360.9
Kraft paper – 000 mt	33.2	27.4	30.2	30.6	121.4
Coastal logs – 000 m^3	339.9	406.9	195.4	294.8	1,237.0

2004 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of dollars)					
Sales	$ 685.6	$ 1,277.5	$ 1,228.9	$ 1,149.9	$ 4,341.9
Manufacturing and product costs	431.8	706.8	696.8	775.6	2,611.0
Freight and other distribution costs	108.7	161.0	176.7	211.1	657.5
Countervailing and antidumping duties	37.4	100.2	78.0	74.6	290.2
Amortization	30.0	38.9	41.7	44.6	155.2
Selling and administration	15.3	22.3	18.6	13.8	70.0
Restructuring costs	-	23.1	0.5	12.9	36.5
Operating income	62.4	225.2	216.6	17.3	521.5
Equity income	0.6	3.5	4.9	2.3	11.3
Interest expense	(12.4)	(15.6)	(11.9)	(10.5)	(50.4)
Foreign exchange gain (loss) on long-term debt	(6.0)	(21.9)	40.5	36.1	48.7
Other income (expense)	0.3	0.4	(0.8)	(3.7)	(3.8)
Net income before income taxes	44.9	191.6	249.3	41.5	527.3
Income tax recovery (expense)	(12.9)	(48.0)	(47.7)	2.2	(106.4)
Net income	$ 32.0	$ 143.6	$ 201.6	$ 43.7	$ 420.9
Per common share (dollars)					
Net Income					
Basic	0.37	1.08	1.52	0.31	3.45
Diluted	0.34	1.00	1.40	0.30	3.22
Cash generated from (used in) (millions of dollars)					
Operating activities	$ (6.4)	$ 316.7	$ 249.8	$ 153.3	$ 713.4
Financing activities					
Long-term debt	66.1	16.4	(41.6)	1.1	42.0
Dividends paid	-	-	-	-	-
Other	5.7	(1.1)	0.7	(3.5)	1.8
	71.8	15.3	(40.9)	(2.4)	43.8
Investing activities					
Property, plant, equipment and timber	(14.8)	(26.2)	(51.5)	(81.4)	(173.9)
Other	1.2	(41.3)	1.2	(3.3)	(42.2)
	(13.6)	(67.5)	(50.3)	(84.7)	(216.1)
Increase in net cash	$ 51.8	$ 264.5	$ 158.6	$ 66.2	$ 541.1

Certain previously published figures have been reclassified to conform to the current presentation.
* Howe Sound Pulp and Paper Limited Partnership, herein referred to as HSLP.

2003 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of dollars)					
Sales	$ 681.8	$ 639.4	$ 685.0	$ 656.4	$ 2,662.6
Manufacturing and product costs	480.6	492.0	473.6	486.5	1,932.7
Freight and other distribution costs	120.5	109.3	97.3	93.4	420.5
Countervailing and antidumping duties	33.9	46.8	32.6	33.3	146.6
Amortization	30.4	25.4	26.5	27.5	109.8
Selling and administration	13.3	13.4	13.1	16.0	55.8
Restructuring costs	-	-	-	-	-
Operating income (loss)	3.1	(47.5)	41.9	(0.3)	(2.8)
Equity income (loss)	0.2	(0.8)	(0.6)	0.8	(0.4)
Interest expense	(12.7)	(13.1)	(13.6)	(11.1)	(50.5)
Foreign exchange gain (loss) on long-term debt	44.3	43.6	(2.4)	25.4	110.9
Other income (expense)	1.9	(0.5)	(0.7)	24.2	24.9
Net income (loss) from continuing operations before income taxes	36.8	(18.3)	24.6	39.0	82.1
Income tax recovery (expense)	0.3	14.6	(6.8)	(4.4)	3.7
Net income (loss) from continuing operations	37.1	(3.7)	17.8	34.6	85.8
Net income (loss) from discontinued operation after income taxes	3.1	2.6	62.3	(0.5)	67.5
Net income (loss)	$ 40.2	$ (1.1)	$ 80.1	$ 34.1	$ 153.3
Per common share (dollars)					
From continuing operations					
Basic	$ 0.44	$ (0.06)	$ 0.20	$ 0.41	$ 0.98
Diluted	0.40	(0.06)	0.19	0.37	0.92
Net Income					
Basic	0.48	(0.03)	0.97	0.40	1.81
Diluted	0.43	(0.03)	0.86	0.37	1.65
Cash generated from (used in) (millions of dollars)					
Operating activities	$ (93.4)	$ 58.4	$ 43.3	$ (9.6)	$ (1.3)
Financing activities					
Long-term debt	-	(48.7)	4.2	(8.4)	(52.9)
Dividends paid	(5.3)	(5.3)	-	-	(10.6)
Other	(0.1)	(3.1)	0.2	(2.5)	(5.5)
	(5.4)	(57.1)	4.4	(10.9)	(69.0)
Investing activities					
Property, plant, equipment and timber	(12.5)	(24.5)	(44.4)	(13.8)	(95.2)
Other	(2.8)	(31.1)	3.1	(5.2)	(36.0)
	(15.3)	(55.6)	(41.3)	(19.0)	(131.2)
Cash generated by discontinued operation	3.6	1.5	116.4	(0.3)	121.2
Increase (decrease) in net cash	$ (110.5)	$ (52.8)	$ 122.8	$ (39.8)	$ (80.3)

Certain previously published figures have been reclassified to conform to the current presentation.

* Howe Sound Pulp and Paper Limited Partnership, herein referred to as HSLP.

FIVE-YEAR COMPARATIVE REVIEW

	2004	2003	2002	2001	2000
Sales and income (millions of dollars)					
Sales	$ 4,341.9	$ 2,662.6	$ 2,652.7	$ 2,466.7	$ 2,788.1
Manufacturing and product costs	2,611.0	1,932.8	1,909.6	1,753.8	1,838.1
Freight and other distribution costs	657.5	420.4	488.5	453.4	522.2
Countervailing and antidumping duties	290.2	146.6	51.9	47.4	-
Amortization	155.2	109.8	110.4	101.8	109.1
Selling and administration	70.0	55.8	65.0	59.6	67.5
Reversal of duties accrued in prior year	-	-	(45.8)	-	-
Restructuring costs	36.5	-	33.1	-	-
Operating income (loss)	521.5	(2.8)	40.0	50.7	251.2
Equity income (loss)	11.3	(0.4)	5.0	1.1	1.2
Interest expense	(50.4)	(50.5)	(59.2)	(64.2)	(60.4)
Foreign exchange gain on long-term debt	48.7	110.9	-	-	-
Other income (expense)	(3.8)	24.9	9.0	(0.3)	7.5
Unusual items	-	-	-	8.5	(3.0)
Net Income (loss) from continuing operations before income taxes	527.3	82.1	(5.2)	(4.2)	196.5
Income tax recovery (expense)	(106.4)	3.7	7.1	23.5	(78.7)
Net Income from continuing operations	420.9	85.8	1.9	19.3	117.8
Discontinued operation	-	67.5	9.6	7.1	7.8
Net income	$ 420.9	$ 153.3	$ 11.5	$ 26.4	$ 125.6
Per common share (dollars)					
Income (loss) from continuing operations					
Basic	$ 3.45	$ 0.98	$ (0.05)	$ 0.19	$ 1.41
Diluted	3.22	0.92	(0.05)	0.19	1.28
Net income					
Basic	3.45	1.81	0.07	0.27	1.50
Diluted	3.22	1.65	0.07	0.27	1.36
Book value per share	12.68	11.71	10.27	10.35	10.24
Assets and capitalization (millions of dollars)					
Working capital	$ 865.9	$ 254.2	$ 277.0	$ 342.2	$ 65.6
Long-term investments	197.4	100.5	90.3	71.3	74.0
Property, plant, equipment and timber	2,219.2	1,443.5	1,394.7	1,435.8	1,483.5
Other assets and deferred charges	94.9	126.8	139.3	159.9	116.8
Net assets of discontinued operation	-	-	30.1	35.4	40.4
Net assets	$ 3,377.4	$ 1,925.0	$ 1,931.4	$ 2,044.6	$ 1,780.3
Long-term debt	$ 660.5	$ 478.0	$ 643.4	$ 714.7	$ 400.9
Other accruals and provisions	223.7	88.6	83.9	118.4	64.8
Future income taxes	499.2	173.7	154.5	147.0	363.9
Deferred credit	27.2	95.7	95.7	104.0	-
Common shareholders' equity	1,966.8	1,089.0	953.9	960.5	950.7
Total capitalization	$ 3,377.4	$ 1,925.0	$ 1,931.4	$ 2,044.6	$ 1,780.3
Additions to property, plant, equipment and timber (millions of dollars)	$ 184.5	$ 123.5	$ 67.4	$ 52.2	$ 121.8

Certain prior years' figures have been reclassified to conform to the 2004 presentation.

	2004	2003	2002	2001	2000
Cash generated from (used in) (million of dollars)					
Operating activities	$ 713.4	$ (1.3)	$ 124.2	$ 105.8	$ 93.8
Financing activities					
Long-term debt	42.0	(52.9)	(49.9)	66.0	(50.2)
Common shares	8.0	0.9	0.6	-	0.1
Dividends paid	-	(10.6)	(21.1)	(21.1)	(21.1)
Interest on convertible subordinated debentures, net of income tax	(5.4)	(6.0)	(5.5)	(4.3)	(4.7)
Other	(0.8)	(0.4)	(0.4)	8.5	14.1
	43.8	(69.0)	(76.3)	49.1	(61.8)
Investing activities					
Property, plant, equipment and timber	(173.9)	(95.2)	(45.7)	(48.8)	(110.7)
Howe Sound Pulp and Paper Limited Partnership	-	-	(5.0)	(60.2)	-
Investment in subsidiaries and affiliates	(38.2)	(30.6)	-	-	-
Mortgage receivable on sale of property	-	(5.8)	(15.7)	-	-
Other	(4.0)	0.4	(3.6)	(10.3)	(14.2)
	(216.1)	(131.2)	(70.0)	(119.3)	(124.9)
Increase (decrease) in net cash					
From continuing operations	541.1	(201.5)	(22.1)	35.6	(92.9)
From discontinued operation	-	121.2	14.8	18.2	(3.3)
	$ 541.1	$ (80.3)	$ (7.3)	$ 53.8	$ (96.2)
Financial statistics					
EBITDA	676.8	107.0	150.4	152.5	360.3
Return on capital employed	19.8%	10.3%	2.7%	3.5%	9.3%
Return on common shareholders' equity	28.8%	15.0%	1.2%	2.8%	13.6%
Ratio of current assets to current liabilities	2.3:1	1.5:1	1.7:1	2.0:1	1.1:1
Ratio of net debt to shareholders' equity	11:89	35:65	41:59	43:57	42:58
Production statistics					
Lumber – MMfbm	4,611.9	2,893.3	2,960.1	2,260.3	2,235.3
Plywood – 000 Msf 3/8" basis	356.6	175.6	165.4	168.7	158.7
Oriented strand board – 000 Msf 3/8" basis	384.8	-	-	-	-
Pulp – 000 mt	1,142.4	992.1	1,001.5	900.1	980.1
Kraft paper – 000 mt	134.1	128.5	107.6	108.8	109.9
Coastal logs – 000 m3	1,312.2	1,257.5	1,335.9	1,211.5	1,600.1
Hardboard – 000 Msf 3/8" basis	29.4	28.3	26.3	24.8	24.1
Refined fibre – 000 mt	37.4	37.3	39.5	40.2	38.5
Sales by product line					
Lumber – Canfor produced	56%	49%	52%	48%	41%
Pulp and kraft paper	23	32	30	34	39
Log sales	4	8	6	6	7
Plywood	5	3	3	3	2
Lumber – other producers	4	5	6	6	8
Oriented Strand Board	4	0	0	0	0
Miscellaneous	4	3	3	3	3
	100%	100%	100%	100%	100%
Sales by market					
United States	61%	55%	57%	55%	54%
Canada	20	21	20	21	20
Far East	12	13	12	12	10
Europe	7	10	10	11	15
Other	0	1	1	1	1
	100%	100%	100%	100%	100%

Certain prior years' figures have been reclassified to conform to the 2004 presentation.

DIRECTORS

The names, principal occupations, municipalities of residence, and the periods during which they have been Directors of the Company are as below. For more information visit www.canfor.com.

P.J.G. Bentley, O.C., LL.D. (2)(3)(4)(5)
Chairman of the Board
Canfor Corporation
Vancouver, British Columbia
Director since 1966

R.L. Cliff, C.M., F.C.A. (1)(2)
Chairman of the Board,
Heathcliff Properties Ltd.
West Vancouver, British Columbia
Director since 1983

C.W. Daniel, O.C., LL.D. (4)
Consultant and Corporate Director
Toronto, Ontario
Director since 1985

M.E. Hurst (3)(4)
Educational Author
Vancouver, British Columbia
Director since 1987

S.A. Jarislowsky, O.C., C.P.Q., LL.D. (2)(4)
Chairman and Chief Executive Officer
Jarislowsky, Fraser Limited
Montreal, Quebec
Director since 2004

M.J. Korenberg (1)(3)
Managing Director, Vice-Chairman
The Jim Pattison Group
North Vancouver, British Columbia
Director since 2003

B.C. Louie, C.A., F.C.A. (3)(5)
President and Chief Executive Officer
H.Y. Louie Co. Limited
Chairman and Chief Executive Officer
London Drugs Limited
West Vancouver, British Columbia
Director Since 2004

P.A. Lusztig, C.G.A. (1)(3)
Dean Emeritus,
University of British Columbia;
Trustee, Health Benefit Trust (B.C.)
Vancouver, British Columbia
Director since 1983

E.P. Newell, O.C., LL.D. (2)(3)
Chancellor, University of Alberta
and Corporate Director
Edmonton, Alberta
Director since 1999

J.A. Pattison, O.C., O.B.C. (2)
President, Managing Director,
Chief Executive Officer and Chairman
The Jim Pattison Group
West Vancouver, British Columbia
Director since 2003

M.E.J. Phelps, O.C. (2)(3)
Chairman, Dornoch Capital Inc.
West Vancouver, British Columbia
Director since 1990

R.T. Riley (4)(5)
Vice-President of L.B.G. Capital,
a Division of National Bank Financial
Montreal, Quebec
Director since 1987

D.C. Selman, F.C.A. (1)(5)
Senior Partner, Wolrige Mahon
Richmond, British Columbia
Director since 2004

J.A. Shepherd, P.Eng.
President and Chief Executive Officer
Canfor Corporation
Surrey, British Columbia
Director since 2004

OFFICERS

The names, offices held, and municipalities of residence of the officers of the Company and the offices held by them are as below. For more information visit www.canfor.com.

P.J.G.Bentley
Chairman
Vancouver, British Columbia

J.A. Shepherd
President and Chief Executive Officer
Surrey, British Columbia

D.M. Calabrigo
Vice-President, Corporate Development,
General Counsel and Corporate Secretary
Surrey, British Columbia

J.B. Engleson
Vice-President, Wood Products, East
Vancouver, British Columbia

K.O. Higginbotham
Vice-President, Forestry and Environment
Surrey, British Columbia

T.D. Hodgins
Vice-President and Treasurer
West Vancouver, British Columbia

C.T. James
Vice-President, Human Resources
West Vancouver, British Columbia

D.B. Kayne
Vice-President, Wood Products Marketing
and Sales
Tsawwassen, British Columbia

D.W. Madlung
Vice-President, Wood Products, West
Surrey, British Columbia

J.R. Williams
Vice-President, Fibre Supply
Surrey, British Columbia

(1) Member of the Audit Committee, which reviews the Company's financial statements, the scope and results of the external auditor's work, the adequacy of internal accounting and audit programs and compliance with accounting and reporting standards.
(2) Member of the Management Resources and Compensation Committee, which oversees human resources and compensation policies and ensures management development and succession programs are in place.
(3) Member of the Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.
(4) Member of the Environmental, Health and Safety Committee, which develops, reviews and makes recommendations on matters related to the Company's environmental, health and safety policies, and monitors compliance with those policies and with government regulations.
(5) Member of the Pension Committee, which oversees the administration, financial reporting and investment activities of the Company's pension plans.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company.

MILL OPERATIONS AND CAPACITIES

Lumber (Mfbm)	2004 Production [1]	2005 Capacity
Primary Mills		
Chetwynd	239,994	240,000
Clear Lake	152,971	150,000
Daaquam	108,697	150,000
Fort St James	222,581	- [2]
Fort St John	250,381	300,000
Grande Prairie	234,757	240,000
Hines Creek	83,914	- [3]
Houston	510,514	600,000
Isle Pierre	269,558	262,000
Mackenzie	476,680	502,000
Plateau	418,554	420,000
Polar	264,311	263,000
Prince George	279,169	350,000
Quesnel	313,158	400,000
Radium	158,702	170,000
Rustad	371,466	375,000
Slocan	97,592	95,000
Tackama	46,181	55,000
Valemount	76,990	81,000
Vavenby	219,683	253,000
subtotal	**4,795,853**	**4,906,000**
Reman		
Finger-joint	55,042	55,000
Uneeda	169,800	200,000
CUSA	207,032	210,000
subtotal	**431,874**	**465,000**
TOTAL	**5,227,727**	**5,371,000**
PLYWOOD (Msf)		
North Central Plywood	172,798	190,000
Tackama	247,511	273,000
TOTAL	**420,309**	**463,000**
OSB (Msf)		
PolarBoard	**514,388**	**570,000**
PULP (Mt)		
Prince George Pulp	136,700	136,700
Intercontinental	309,183	308,900
Northwood	551,574	550,300
Taylor	151,957	220,000
Howe Sound [4]	350,867	398,000
TOTAL	**1,500,281**	**1,613,900**
PAPER (Mt)		
Specialty Paper Mill	**134,078**	**142,000**
NEWSPRINT (Mt)		
Howe Sound [4]	**203,926**	**207,000**

1 2004 production figures include 12 months of Slocan mill production
2 Sale of mill to close second quarter 2005
3 Mill to close second quarter 2005
4 Includes 100% of production

CORPORATE AND SHAREHOLDER INFORMATION

Annual General Meeting

Canfor's Annual General Meeting will be held at the Four Seasons Hotel, Ballroom, 791 West Georgia Street, Vancouver, B.C., on Friday, April 29, 2005 at 11:30 a.m.

Transfer Agent and Registrar

CIBC Mellon Trust Company

Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax

Stock Listing

Toronto Stock Exchange

Symbol: CFP

Investor Contact

David Jan

Manager, Investor Relations

Telephone: (604) 661-5424

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Vancouver, B.C.

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Web: www.canfor.com

Canfor also produces an Annual Information Form.

To obtain this publication or more information about the company, please contact Canfor Corporation, Corporate Affairs.

Lee Coonfer

Manager, Public Affairs & Corporate Communications

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CANFOR

www.canfor.com